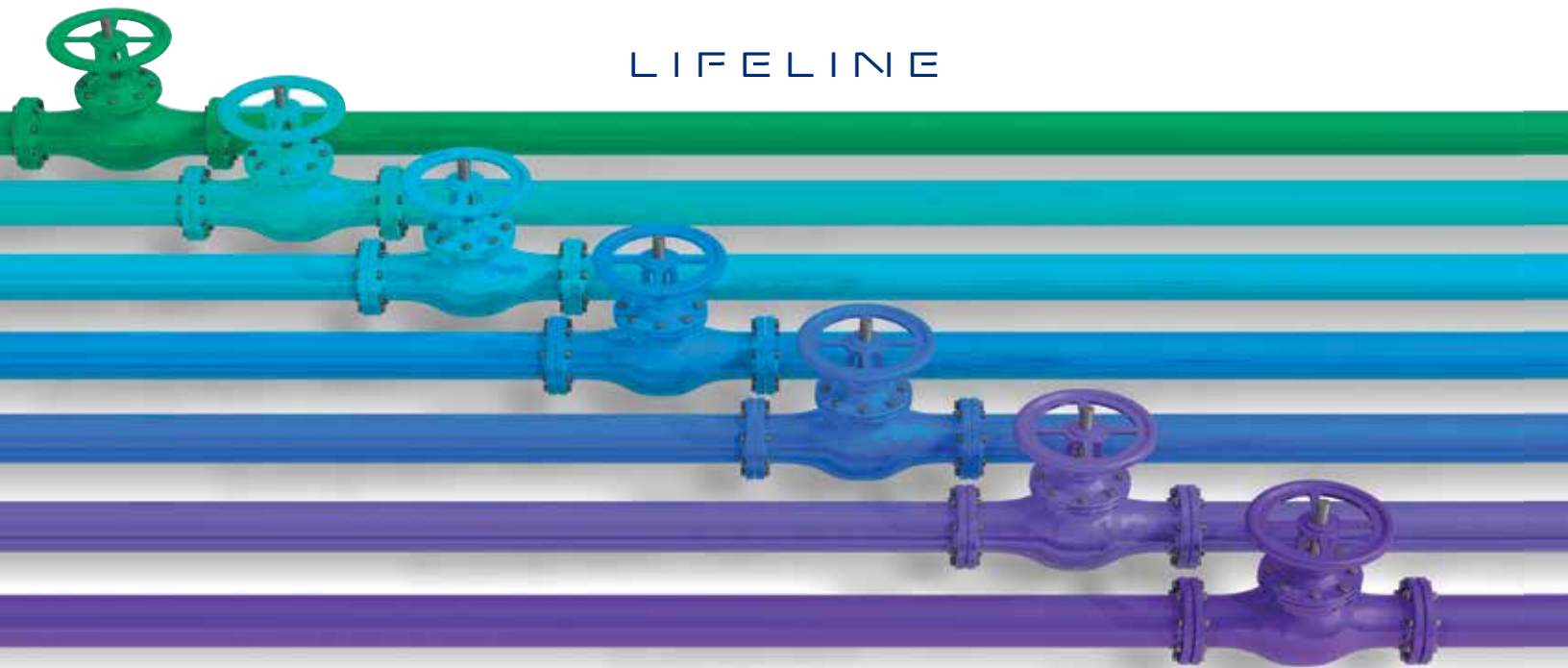


LIFELINE





### LIFELINE

Louisville Water is a lifeline to the community, delivering a product for which there is no substitute: a safe, high-quality supply of drinking water.

Louisville Water supplies water and fire protection to over 850,000 people in Louisville Metro and surrounding parts of Bullitt, Nelson, Oldham, Shelby and Spencer counties. The company started operations in October 1860 as Kentucky's first public water provider.

### LOUISVILLE WATER VISION

To be the water supplier of choice throughout the Louisville region by:

- Providing best-of-class quality, customer service, innovation and value
- Expanding the geographic areas we serve
- Creating new lines of water-related businesses that build on existing competencies

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Jim Brammell  
President/CEO  
Louisville Water Company

I am pleased to present Louisville Water Company's 2014 Annual Report. In our 154th year of operations, Louisville Water had exceptional performance including the areas of water quality and finance, capital program execution and customer satisfaction. You will notice a water main theme throughout this report

signifying that Louisville Water is a lifeline to the community. We recognize the vital role we play in public health and safety and improving the quality of life in the communities we serve.

### INNOVATION FOR SUCCESS

Like many water utilities, Louisville Water continues to see a trend of declining water consumption. We are fortunate the Ohio River presents an abundant source for our community but changes in industry and residential usage patterns have yielded some of the lowest consumption levels in 40 years. Total consumption in 2014 increased slightly from 2013 to 34.1 billion gallons but is far below the levels from just five years ago. Of course, our industry is weather-dependent and the hot, dry summer did increase irrigation sales in 2014. But Louisville Water has worked to minimize the volatility of weather patterns by upwardly adjusting the fixed component of the water bill. In addition, we are identifying new lines of business that complement our existing competencies and generate new revenue. Our Strategic Business Plan has a goal of pursuing revenue through economic development, regional water sales and new water-related businesses. In 2014, we formed a new partnership with Louisville Metro (Louisville Forward) for economic development and finalized plans to bring our largest wholesale customer to date online in 2016.

Our employees are also actively engaged in controlling costs and identifying opportunities to improve efficiencies. Our work with Louisville MSD on a concept we have branded as One Water is yielding savings and improving customer service. In 2014, we exceeded the budgeted dividend to our owner, Louisville Metro, by \$381,000 by providing a dividend of \$20.6 million. This is a significant achievement considering we battled one of the most severe winters in recent history with

over 350 water main breaks in just two months—over half the amount of work our crews would perform in a typical year. The field crews are members of our labor union, Local 1683. In 2014, the union and company affirmed their commitment with a renewed Strategic Partnership Plan.

Louisville Water is regarded as a leader in the water industry and the fiscal strength of the company was highlighted as Standard & Poor's Ratings Services and Moody's Investors Service reaffirmed AAA and Aaa ratings respectively for Louisville Water. These high marks came as we successfully executed a bond issue refund that will save the company millions of dollars.

### COMMUNITY PARTNER

Louisville Water strives to be an employer of choice where employees make the difference in the service we provide, enjoy a quality of work life and give back to the community. We excelled in water quality for 2014 and customer satisfaction levels reached their highest level since 2003. Our employees increased the number of hours they volunteer in the community and the financial support they provide to local charities through our Combined Giving Campaign.

We were pleased to reopen our landmark facility to the public in 2014. The 1860 original pumping station and water tower now include the WaterWorks Museum. An interior restoration of the pumping station, a National Historic Landmark, allowed us to install a permanent exhibit that highlights the history of innovation in safe drinking water to this community. Thousands of guests toured the museum in its first year of operations and the site hosted over 50 special events. We look forward to expanding this line of business and promoting the value of water.

Louisville Water's mission is to provide safe, high-quality water and related services that deliver an exceptional value to our customers, shareholder and community. We are dedicated to fulfilling this mission every day.

James H. Brammell  
President/CEO





Spencer Bruce  
Vice President of Operations,  
Chief Engineer



ABOVE: Crews repair water main breaks and install a new copper service line. A transmission main break creates a waterfall on an overpass.

TO THE RIGHT: A robotic device is inserted into a transmission main as part of a condition assessment program.



## WINTER EMERGENCIES

Louisville Water experienced one of its busiest winters in 2014 when two polar vortexes moved through the region in January and February. The winter blast contributed to 355 water main breaks in two months. In January, the average low temperature was 18 degrees and the temperature for the finished drinking water was near 32 degrees for several consecutive days.

The spike in activity began on January 6. In that week, we repaired 103 breaks with a peak day of 28 breaks on January 9. The activity prompted two Level 2 Emergencies for Louisville Water in January where our crews repaired 256 breaks. The cold continued into February with 99 breaks and finally subsided to normal levels in March with only 16 breaks. Along with the increased activity for our field crews, the Customer Care Center received over 42,000 customer calls in January, a 12% increase from 2013. Many of these calls were in regards to frozen water lines on the customer's property.

The winter activity had a ripple effect on other operations. Meter-read estimates were higher than normal due to snow-covered lids and pairing employees for safety during the bitter cold. Plus, restoration work for our crews continued well into the spring. Our crews had tremendous performance during this extreme weather. Most notably, for the first time since we began tracking OSHA recordable injuries, there were none during January. This is a large accomplishment considering the long work hours and the brutal weather conditions.

Overall, Louisville Water repaired 714 main breaks in 2014, an increase of 73 from the five-year average of 641. Over half of those breaks occurred in the first two months of the year.

## BAXTER AVENUE & EASTERN PARKWAY BREAK

In the spring, Louisville Water worked quickly to repair a large break on a 48-inch diameter cast-iron main located at Eastern Parkway and Baxter Avenue. This main is one of the critical supply lines for the city and is located in a busy intersection. The break occurred April 24 and the rush of water, an estimated 10 million gallons, created a waterfall along an overpass on Baxter Avenue.

The break triggered a boil water advisory for approximately 8,000 customers and caused significant damage to the road pavement. The break was on a 48-inch x 12-inch tee of the main that was installed in 1925. The pipe had been cleaned and lined in 1987. A small section of the pipe was replaced and put back in service May 1.

## INFRASTRUCTURE RENEWAL

The break on Eastern Parkway highlights the importance of Louisville Water's efforts to aggressively inspect, repair and replace its infrastructure. Our efforts began with the smaller distribution mains in the 1980s and more recently continued with the larger transmission mains as the technology to inspect these mains evolves.

In 2014, Louisville Water completed two condition assessments on transmission mains. The first involved the 48-inch cast iron main that broke in April and had two other significant breaks in 2011. Working with Pure Technologies, we utilized its Sahara® tool, an acoustic sensor that uses the flow of water to move it through pipe while listening for potential leaks. The device also includes a video camera and a pipe wall assessment tool. Using 15 access points along the main, we inspected 4.5 miles of the 48-inch pipe with no interruption to water service. This was the first time in our history to inspect a cast-iron transmission main while it was filled with water and in service. The inspection identified potential leaks and sections of the main that needed further analysis to determine if repairs were needed.

The second inspection involved two miles of a 60-inch prestressed-concrete-cylinder pipe (PCCP) along Grade Lane and 3.5 miles of a 24-inch PCCP along Preston Highway. Again, we utilized robotic and sensory inspection tools with Pure Technologies to identify potential repairs.

Louisville Water has a long-term program to assess all 200 miles of transmission main in the system over 10-15





*ABOVE: An on-site chlorine generation facility went online in November at the B.E. Payne Plant. Scientists conducted over 73,000 water quality tests in 2014 on the drinking water supply.*

*TO THE RIGHT: A restoration on the Gatehouse at the Crescent Hill Reservoir was completed.*



years, allocating \$4-5 million annually. This proactive program of identifying and repairing distressed sections of pipe provides significant savings as compared to the pipes catastrophically failing.

For the distribution mains, we continued the Main Replacement and Rehabilitation Program with a budget of \$4 million to repair or replace 4.2 miles of pipe. We also continued efforts to replace lead service lines with a \$1.5 million investment for five projects in 2014, replacing approximately 1,000 lead service lines. Louisville Water has a goal to replace all of its remaining lead service lines before 2025.

### TREATMENT OPERATIONS

Our expertise with treatment and research was highlighted in January during a chemical spill in West Virginia. The chemical, MCHM, began leaking from a storage facility in Charleston into the Elk River which eventually feeds into the Ohio River. The incident received national attention because of the concerns over the impacts on drinking water quality in West Virginia and the decision by some water providers to close their water intakes for a short period. Louisville Water has a long history of research into contaminants entering the river. Working with our peers in Cincinnati and the Ohio River Water and Sanitation Commission (ORSANCO), we developed a strategy to minimize any impact. We did not close our intakes but instead increased monitoring and enhanced treatment strategies. It took over a week for traces of the chemical to reach the Louisville area. Water quality staff used powdered activated carbon to remove any residuals and the monitoring results showed zero detections of MCHM in the finished water.

Louisville Water completed one project and began another to make our treatment operations safer for employees and the public. In November, we began producing sodium hypochlorite for disinfection at the B.E. Payne Treatment Plant, eliminating the need to store gaseous chlorine at the facility. We completed a similar project at the Crescent Hill Filtration Plant in 2011. By early 2015, the operation at the B.E. Payne Plant was going smoothly and we depleted the remaining supply of gaseous chlorine at the plant.

The second project involves constructing an aqueous ammonia feed system at both plants. Currently, Louisville Water stores gaseous ammonia that is used with chlorine to produce chloramine as the disinfectant. The new feed system will allow us to store a liquid solution that is safer for our employees and the community. Construction began in late 2014 and the systems will be complete and online at both plants in 2015 at a cost of \$8.3 million.

Louisville Water received positive recommendations from the Kentucky Division of Water and the EPA as part of periodic reviews. The EPA Water System Sanitary Survey is conducted every three years with an on-site review. The Division of Water commended Louisville Water for having no deficiencies.

### GATEHOUSE RESTORATION

Throughout much of 2014, public access to the Crescent Hill Reservoir was limited as we completed a \$2.4 million restoration of the Gatehouse, the 1879 facility that sits in the middle of the reservoir basins. The project is unique; contractors believe it is one of the only buildings in the United States with a slate roof on the exterior and terra cotta on the interior. The project included replacing the roof, cleaning and restoring the terra cotta, and removing an interior ceiling added in the 1940s. Near the Gatehouse, the limestone stairs leading up to the reservoir were cleaned and waterproofed.

Except for work after the 1974 tornado, this is the first large-scale restoration of the Gatehouse, which was designated a Kentucky Historic Site in 2010. In the spring of 2015, we will reopen the Gatehouse to the public and school groups for guided tours.



*Dave Vogel  
Vice President,  
Customer Service*



*TO THE RIGHT: Teams of employees spent nearly two years preparing for the launch of a new customer care and billing system.*

*BELOW: A device is installed on a water meter as part of a pilot for Automated Metering Infrastructure.*

*Louisville Water's focus on safety is a daily part of field operations.*





## CUSTOMER CARE AND BILLING PROJECT

Throughout 2014, work continued to finalize a new billing and mobile workforce management platform for Louisville Water. This system replaces a 16-year-old billing system and at \$29 million, the project is the largest capital project centered on customer service in Louisville Water's history.

The project has required a company-wide focus with up to 40 employees on the project team along with members of Oracle, Ernst & Young and Louisville MSD. The team spent the year developing the interfaces, converting data and testing the system. This platform will allow for improved service; customers will have the ability to choose e-billing and manage multiple services under one account with a new online portal. Our Customer Care Representatives will have a more flexible platform for entering work orders and researching billing questions while our billing area will eliminate the need to review thousands of printed pages of billing reports each month. For our field crews, the mobile workforce management system will allow us to more efficiently route crews for routine and emergency work.

The system went online in the spring of 2015, and we have spent several months preparing for a swell of activity by boosting staffing levels in the Customer Care Center and cross-training MSD employees to accept Louisville Water calls. The final piece of this project includes the redesign of the customer bill in the third quarter of 2015.

## IMPROVING CUSTOMER SERVICE LEVELS

A concerted effort to improve service levels in the Customer Care Center paid off in 2014. Each week, thousands of customers contact us by phone and it can sometimes be a challenge to answer all the calls. In 2013, the Abandonment Rate (number of callers who hang up before their call is answered) soared to 20.8%. The Strategic Business Plan goal is less than 13%.

Throughout 2014, leadership in the Customer Care Center spent time analyzing call patterns and staffing. This effort resulted in an Abandonment Rate of 13.2% for 2014, a dramatic improvement from the previous year and very close to our goal. There were four months where the rate dipped below 8%. The improvements are especially significant since the number of calls was 3% higher than the five-year average and many of the employees in this group were involved in the Customer Care and Billing Project.

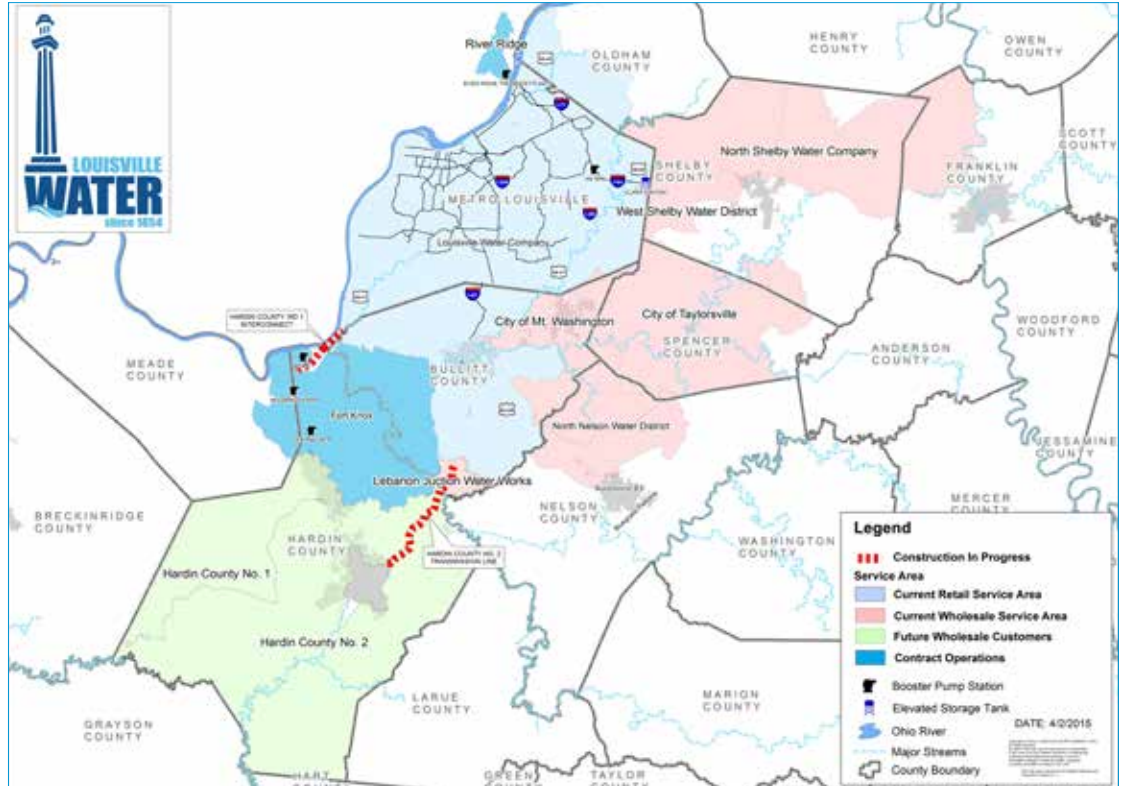
We're extremely pleased with this effort since the Customer Care Center Operations are directly related to the Customer Satisfaction Index (CSI), an annual measurement of customer perception. The total CSI for 2014 was 869 on a 1,000 point scale, which is the highest annual average since 2003.

## AUTOMATED METERING INFRASTRUCTURE

Louisville Water began a pilot project in December 2014 to evaluate the feasibility of Automated Metering Infrastructure (AMI) for the urban part of our service area. Nearly 400 meters in the Crescent Hill area have been replaced with an AMI system. AMI allows for real-time data on water usage and potential leak detection and includes web-based platforms for customer service. Throughout 2015, we will evaluate if the technology is feasible for Louisville Water. Currently, approximately 30% of our customer base has Automated Meter Reading (AMR) technology which allows a meter reader to drive along a route and capture data from a transmitter on the meter. The AMI technology is better suited for more densely populated areas where meter readers would traditionally "walk" a route.

## SAFETY—CONTINUING A POSITIVE TREND

Louisville Water strives to create a culture of safety and the positive trend continues. The Occupational Safety and Health Administration (OSHA) recordable injury rate for 2014 was 3.96. For the first time since we began tracking OSHA recordable injuries, we had none during the month of January—a huge accomplishment considering the extreme working conditions and long hours during a winter emergency. This rate has dropped significantly in the past 10 years from 11.86 in 2004 and we attribute much of the success to a company-wide focus on safety.



Louisville Water has wholesale contracts with eight water providers in Bullitt, Hardin, Nelson, Shelby and Spencer counties. Regional water sales grew by 6% in 2014 to just over 1.9 billion gallons.



## LEBANON JUNCTION & HARDIN COUNTY WATER DISTRICT NO. 2

In the spring of 2014, we completed converting Lebanon Junction to a 100% Louisville Water supply. Lebanon Junction has been a wholesale customer since 2000 but only purchased about half of its annual supply from Louisville Water. A new purchase agreement and the installation of a small section of water main made this connection possible.

As part of this agreement, Lebanon Junction is allowing Louisville Water to extend a larger pipeline through its service area to connect to Hardin County Water District No. 2 (HCWD2). Louisville Water has a water-purchase agreement to supply HCWD2 with two million gallons of water daily by January 1, 2016. The agreement includes HCWD2 purchasing a minimum of 60 million gallons annually in 2016 and then increasing to 365 million gallons by 2021.

Louisville Water finalized design and bid projects in 2014 to construct four miles of water main, ranging in size from 12 to 24 inches in diameter that will connect to HCWD2. There are a number of other projects underway including booster pumping stations and an elevated storage tank. Many of these projects not only provide the connection to HCWD2, but also improve water pressure in the 690 pressure plane, located in the southern portion of our service area.

Along with the engineering projects, our water quality staff worked with HCWD2 to convert its disinfectant from free chlorine to chloramine which allows the water supplies to be compatible.

The work with HCWD2 is Louisville Water's largest wholesale agreement to date and for HCWD2, the agreement provides a much-needed additional supply. HCWD2 serves a large part of Hardin County and acquired the Elizabethtown Water Works in 2014. The District also provides water on a supplemental basis to utilities in counties surrounding Hardin County.

## HARDIN COUNTY WATER DISTRICT 1, FORT KNOX OPERATIONS AND SOUTHERN INDIANA

We completed a third year of successful operations of the water treatment and pumping systems on the Fort Knox military post through a contract partnership with Hardin County Water District 1 (HCWD1). The peak day for pumping in 2014 was 4.0 million gallons. HCWD1 is completing the installation of a 16-inch transmission main that will connect its system to Louisville Water.

In Clark County, Indiana, the operations of the water treatment plant at the River Ridge Commerce Center continue to grow. Louisville Water is a contract partner with River Ridge Development Authority for operating the water plant on the 6,000-acre site. The Indiana Department of Natural Resources owns the water system.

The Commerce Center continues to attract new businesses and with a plant capacity of two million gallons daily, the Center has ample supply for future growth. The Center expects to see an increase in development in the coming years as a new bridge connecting southern Indiana and Kentucky is completed.

## MARKETING AND ECONOMIC DEVELOPMENT

Louisville Water's Strategic Business Plan includes an economic development strategy promoting job growth and water usage. As part of this strategy, we began developing a plan in 2014 to match viable water-intensive industries with current economic development efforts. To this end, we are working closely with Louisville Forward, the city's new agency focused on job growth, and other partners, including the Kentucky Chamber of Commerce, Greater Louisville Incorporated, trade and business associations and state economic development agencies. In 2015, we will finalize marketing materials that can either accompany a proposal from one of our partner agencies or be used by Louisville Water in regionalization and industry-related efforts.



TO THE RIGHT: Louisville Mayor Greg Fischer addresses a joint meeting of the MSD Board and the Board of Water Works in November 2014.

BELOW: Louisville Water delivers concrete to a MSD job site.



Louisville Water and MSD made significant progress in 2014 in moving towards a One Water concept to provide savings and efficiencies at both organizations.

In February, Louisville Mayor Greg Fischer, the Board of Water Works and the MSD Board accepted the findings of a Due Diligence Team report which recommended using a Comprehensive Interlocal Agreement to bring together support functions at each organization. The Due Diligence Team which included senior leadership from Louisville Water and MSD, recommended this approach after critically reviewing the 2012 findings of the Mayor's Utility Task Force.

Both organizations and Mayor Fischer believe moving forward with the Comprehensive Interlocal Agreement strategy is the logical first step for One Water. It provides the ability for significant savings and protects the unique governance structure for Louisville Water. Kentucky's Attorney General approved a Comprehensive Interlocal Agreement in March.

### GOVERNANCE MODEL

Louisville Water and MSD have established a phased approach in consolidating functions. A Joint Services Steering Committee with leadership from both organizations oversees the effort and works closely with a Transition Coordinator. The coordinator reports to both Louisville Water's president and MSD's executive director and is focused on accelerating the consolidation efforts. The coordinator's role is critical since Louisville Water and MSD have pledged that this effort will not impact service levels or create hardship in the day-to-day operations. There are Transition Teams in each identified area that includes employees working together with the Coordinator to set milestones for consolidating services. The mayor and boards for both organizations receive quarterly updates and the boards plan an annual joint meeting.

### PHASE 1

Phase 1 includes consolidating five support functions: Customer Service, Fleet, Human Resources, Information Technology (IT) and Procurement as well as identifying energy savings. This phase also includes developing a tool to track benefits and savings, which will be complete by first quarter of 2015.

Fleet operations were the first to use a shared services agreement. The agreement is for concrete pours at job sites, using Louisville Water's equipment. Louisville Water has delivered concrete for 498 projects with an annual savings of nearly \$70,000 for MSD. In this functional area, we are utilizing one fuel bid and looking at a joint contract for equipment and vehicle parts and supplies.

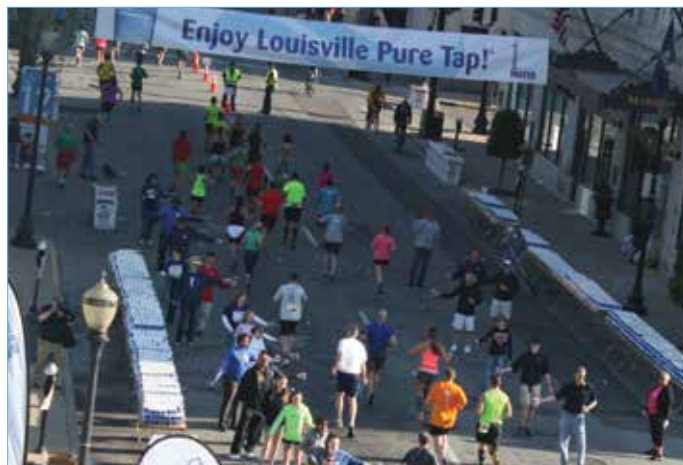
In the summer, Customer Service launched a job shadowing effort where MSD and Louisville Water employees spent several weeks working at the other's call center. This effort will be especially helpful with the launch of a new billing system with MSD able to take Louisville Water customer calls.

For Procurement, Louisville Water and MSD executed a joint project to bid the construction of water main and sewer improvements as part of a state highway project. The effort resulted in savings for both utilities. In the IT area, Louisville Water and MSD worked together to jointly hire a Security Administrator for both organizations. The IT team is also working to standardize the hardware and software for networks and installing communication infrastructure for shared calendars and files.

The Human Resources group began offering joint employee training opportunities and is evaluating the compensation and benefit structures of each organization. The process to consolidate Human Resources and Procurement presents a challenge since Louisville Water and MSD follow different procurement models, benefit cycles and employee policies and have different unions.

### PROJECTED SAVINGS

Louisville Water and MSD project the One Water effort will provide savings of \$1 million in 2015 with most of the savings coming from Fleet, IT and Customer Service. There are also "soft" savings through cost avoidance and the sharing of best practices. For example, sharing assets, improving business processes and safety procedures and enhancing employee and customer satisfaction provide benefits that are difficult to quantify.



*TO THE RIGHT: Louisville pure tap® is part of hundreds of community events, including the Centennial Festival of Riverboats, the city's first large-scale community event where only pure tap, not bottled water is served.*

*BELOW: Thousands of children take part in Adventures in Water education programs. The Louisville pure tap® 5k starts and ends at the Louisville Water Tower. "Purely Local" signs appear at businesses that serve pure tap.*





## GETTING BACK TO THE TAP

Since 1996, the Louisville pure tap® program has been at the core of Louisville Water's community outreach efforts to promote the quality, innovation and value of tap water. The program achieved a milestone in 2014 with the first large-scale community event where no bottled water was served, only Louisville pure tap®. Through a partnership with Waterfront Development Corporation as part of the Centennial Festival of Riverboats, Louisville Water set up mobile water stations where guests could purchase a Louisville pure tap® empty bottle or use their own container to fill and refill with pure tap for free. Louisville Water engineers developed the Louisville pure tap® to GO concept several years ago. The mobile units connect directly to a water source and provide an ongoing supply of pure tap. The partnership with the Festival was a success. Attendees praised the "green" effort and thousands readily took advantage of the service. Louisville Water received local and national recognition for its efforts to "get back to the tap."

This event came on the heels of a strategic decision to no longer offer filled bottles of Louisville pure tap®. Now, the Louisville pure tap® program only includes sustainable solutions such as the mobile units, coolers, compostable cups and reusable bottles. In 2014, the Louisville pure tap® program served over 421,000 people through community events, school and sport functions, neighborhood picnics, walks and runs and individual requests.

The largest recipient of Louisville pure tap® is community walks and runs. During the Kentucky Derby Festival, Louisville pure tap® is served at 15 water stops along the mini-marathon and marathon routes. Our partnership with the Louisville Sports Commission continued with the Louisville pure tap® 5k race as the first event of the commission's fall run-a-thon. In September, over 1,000 walkers and runners followed a course for the 5k that began and ended at the Louisville Water Tower.

Louisville Water launched a new business aspect to the pure tap program in 2014 called "purely local." This effort is a partnership with local businesses that provides branded signage and Louisville pure tap® products and highlights water's community connection and economic value. By the end of 2014, over 50 local businesses were part of the purely local effort, ranging from ice cream shops, dental offices, neighborhood centers and attorney offices.

## ADVENTURES IN WATER EDUCATION

Each year, thousands of students find water at the center of a science, social studies or health lesson with Adventures in Water. In 2014, Louisville Water reached over 44,400 students at 114 schools with its education program that brings a real-world example to the curriculum. Much of the education is delivered in local schools with Louisville Water staff bringing hands-on water experiments aligned to Kentucky's Common Core Standards. There are also a number of community partners such as the Louisville Free Public Library, the Louisville Zoo, Kentucky Science Center and Bernheim Arboretum and Research Forest. At Bernheim, we launched a new partnership in 2014 which included an "Edible Garden" that is under construction. Louisville Water is working with Bernheim on a joint education opportunity for schools that looks at water's role in sustainability.

Adventures in Water also includes a Water Festival with community partners offering hands-on education with water. In 2014, Louisville Water moved this popular event to the city's Waterfront Park to coincide with the Centennial Festival of Riverboats. Over 3,000 students from 20 schools were part of the three-day festival.



*TO THE RIGHT: Thousands of guests visited the WaterWorks Museum for tours and programming. The site also hosted private rentals such as weddings and receptions.*

*BELOW: The "Buy Local" Fair at Louisville Water Tower Park attracted thousands of guests.*

*Louisville Water employees contributed nearly 5,000 hours in 2014 with local and peer organizations.*



## WATERWORKS MUSEUM AT LOUISVILLE WATER TOWER PARK

Louisville Water reopened its original pumping station and water tower to the public in 2014 as a platform to talk about the value of water. Following a one-year interior restoration, the WaterWorks Museum opened inside Pumping Station No. 1 on March 1. The museum highlights Louisville Water's considerable archive collection and explores the company's innovations in science and water delivery. The museum includes a permanent exhibit with pieces of the original water works, film of the company's old steam engines and handwritten documents that tell the stories of how the water works evolved. The experience also includes a guided tour inside the water tower and current pumping stations, which includes one of Louisville Water's old steam engines.

Pumping Station No. 1 and the Louisville Water Tower are National Historic Landmarks and recognizable city landmarks. The interior restoration of the pumping station was needed to maintain its historic value. In launching the museum, education was the primary focus and the community quickly embraced the concept. Over 30,000 people from 34 states and seven countries visited the site in 2014, including hundreds of school children for field trips. The museum is a natural extension of the Adventures in Water program. Now, many schools choose to host a classroom program and then follow with a trip to the WaterWorks Museum. Forty-seven schools visited the facility in 2014.

The restored space also allows Louisville Water the opportunity to host a variety of rentals from weddings, private events, festivals and concerts. During 2014, there were 20 weddings and over 50 receptions, festivals and private tours at the property. Launching this business required coordination from several parts of the company, including facilities, engineering, plant operations, communications, legal and finance. We are pleased to see the public take advantage of the education opportunity at our historic structures and believe the 2015 operations will exceed the success we recognized in the first year.

## COMMUNITY ENGAGEMENT

Every day, Louisville Water employees strive to improve the community in which we live. In 2014, employees contributed 4,799 hours to local and peer organizations and non-profits, a 3.8% increase from 2013. One of the largest efforts is the Smile Kentucky! program, our dental partnership that provides dental education, free dental screenings and treatment to elementary school children. In 2014, 110 children received treatment in the program at a value of \$45,000.

Louisville Water's Combined Giving Campaign generates employee contributions to four entities: Fund for the Arts, Metro United Way, Water for People and the Louisville Water Foundation. In 2014, employees donated \$175,019 to the campaign through payroll deductions and company events. The campaign has become not only an annual community fundraiser, but also a popular way for employees to interact outside of their normal work schedule.

## LOUISVILLE WATER FOUNDATION

In 2014, the Louisville Water Foundation completed its second year of operations. The Board of Water Works approved establishing the foundation in 2013 to complement Louisville Water's mission of public health and improving the quality of life.

Funding comes from employee payroll contributions, a percentage of the earnings of the water-line protection program and donations from individuals, corporations and Louisville MSD. A majority of the funding, over \$200,000, went to the Customer Assistance Program, providing assistance to individuals with difficulty paying their water and sewer bill. In 2014, the Foundation also supported water-related education efforts, including the Water Festival at the Centennial Festival of Riverboats.



### ACHIEVEMENT AWARDS

#### *American Public Works Association*

2nd place in "Rodeo" competition for heavy equipment operators

Members of Local 1683 Darrell Johnston, Phil Henry, Shawn Shaw and Nik Wohlleb (pictured to left).

#### *Mayor's Healthy Hometown Wellness Award*

Bronze Award for employee health initiatives

Louisville Water's Women's Tapping Team placed 1st at the *Kentucky/Tennessee American Water Works Conference* and the Men's Team placed 2nd.

#### *Water Research Foundation Outstanding Subscriber Award*

Louisville Water was one of two utilities to receive the Foundation's Outstanding Subscriber Award for applied research. The award recognizes subscribing utilities that have made notable improvements to their water treatment, delivery, and/or management processes through the successful application of Foundation research. President and CEO Jim Brammell accepts the award, pictured to the left.



#### *Preservation Louisville Top 10 Success Stories*

Louisville Water's restoration of its original pumping station and the installation of the Water-Works Museum were recognized as one of ten success stories for local preservation.

## BOARDS AND COMMISSIONS

*American Public Works Association Kentucky Chapter Board* - Wayne Whitehouse, Central Branch Chapter Chair

*American Red Cross Louisville Area Chapter Board* – Dave Vogel, Director

*American Society of Mechanical Engineers, Louisville Section* - Ralph McCord, Chair

*American Society of Civil Engineers Kentucky Chapter* – Shanaka Ewing, Treasurer and Vice-President

*American Society of Civil Engineers Kentucky Section* – Chris Keil, State Section President

*American Society of Civil Engineers Board of Governors* - Daniel Tegene, Member

*AWWA KY/TN Section Diversity Committee* – Daniel Tegene, Vice Chair

*AWWA KY/TN Section Public Information Committee* – Kelley Dearing Smith, Chair

*AWWA National Concrete, Pressure Pipe Standards Committee* – Jim Grunow, Member

*AWWA National Cross Connection Control Committee* – John Ralston, Member

*AWWA National Finance and Accounting Management Controls Committee* – Amber Halloran, Chair

*AWWA National Membrane, Organic Contaminant and Academic Achievement Committees* – Dr. Rengao Song, Member

*AWWA Partnership for Safe Water* – Dr. Jack Wang, Program Effectiveness Assessment Committee Co-Chair and Chris Bobay, Member

*Business Diversity Network* – Johnnie Rice, Chair

*Fairdale High School Construction Trade Board* – Spencer Bruce, Member

*InfraGard Kentucky Water Sector* – Glen Mudd, Chair

*Greater Louisville, Inc. Board* - Jim Brammell, Member

*Institute of Electrical and Electronics Engineers, Louisville Chapter Executive Committee* – Larry Bryant, Member

*International Facility Management Association, Greater Louisville Chapter Board* – James Mok, Member

*Kentuckiana Construction Users Council Board* - David Simmons, Member and Safety Chair

*Kentuckiana Regional Planning & Development Agency* – Jim Grunow, Bullitt County Water Management Council and Jim Smith, Oldham County Water Management Council

*Kentucky 811 Board* – Harold Hunt, Member

*Kentucky Dental Foundation Board* – Kelley Dearing Smith, Member

*Kentucky Derby Festival Board* - Jim Brammell, Member and Event Chair

*Kentucky/Indiana Exchange Board* – Jim Brammell, Member

*Kentucky Industry Liaison Group Board* – Kathy Schroeder, Membership Committee Co-Chair

*Kentucky Society of Professional Engineers Professional Development Committee* – Chris Keil, Chair

*Kentucky Chapter of American Society of Civil Engineers Board of Governors* – Daniel Tegene, Member

*Kentucky Water/Wastewater Agency Response Network* – Glen Mudd, Chair

*Leadership Kentucky Foundation* – Barbara Dickens, Executive Committee Member & Finance Chair

*Lincoln Foundation Board* – Ed Chestnut, Member

*Louisville/Jefferson Co. Information Consortium Board* – Jim Brammell, Member, James Bates, Strategy Innovation Team Co-Leader, Kevin Kastensmidt, Technical Committee Member

*Louisville Metro Animal Services Board* – Jim Brammell, Chair

*Louisville Metro Animal Services Board* – Amber Halloran, Treasurer

*Louisville Metro Merit Board* – Barbara Dickens, Member

*Louisville Sports Commission Board*– Amber Halloran, Treasurer

*Ohio River Valley Water Sanitation Commission* – Dr. Jack Wang, Member and Dr. Rengao Song, Water Users Advisory Committee

*The Center for Women and Families Board* – Barbara Dickens, Member

*Water Research Foundation* – Amber Halloran, Committee Member for Performance Benchmarking, Dr. Jack Wang, Project Advisory Committee, Dr. Rengao Song Panel Advisory Committee

*WaterStep Board* - Kelley Dearing Smith, Member

*UofL Center for Infrastructure Research Advisory Board*– Jim Brammell, Keith Coombs and Alan Reed, Members

*Urban Renewal Commission Housing Development Board* – Lisa Ogburn, Member



Amber Halloran  
Vice President,  
Finance - Treasurer

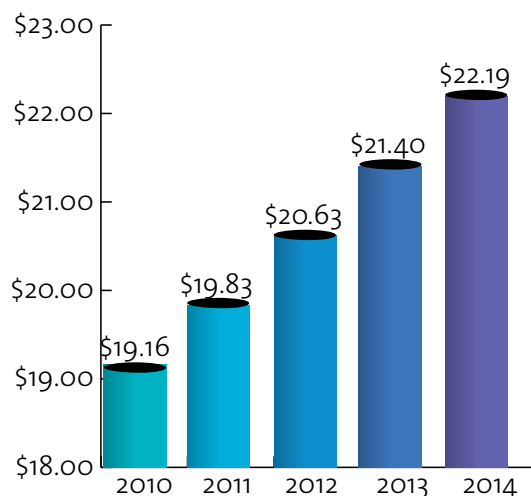
Louisville Water continued to provide a safe, reliable water supply at among the lowest rates in the region in 2014. The full year showed a slight increase in consumption while implementing a rate increase of 3.69% in January of 2014. Total operating revenues were \$169.9 million in 2014 with a strong focus on other operating revenue sources that fit our core competencies. Net income increased \$1.5 million over 2013 and the dividend was \$381,000 over budget for 2014. Total shareholder value for Louisville Metro with dividend and free water totaled \$36.5 million.

The company did an excellent job of managing resources and controlling expenses in 2014. Two winter emergencies in the first quarter created over 350 water main breaks. Louisville Water successfully navigated through this season of increased labor expense by reducing other expenses throughout the year with efficient management of resources. Additionally, we continued on our 20-month implementation project replacing our customer billing system with Oracle Customer Care and Billing including customer self-service and mobile workforce system. This is a total organization commitment and partnership with MSD and a \$30 million investment in an improved technology platform and customer service.

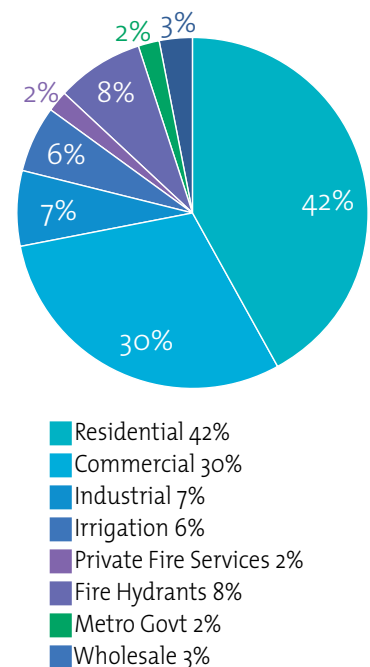
Our financial strength was affirmed in August as we executed an advance refund of a major portion of the 2006 Bond Series. Standard & Poor's and Moody's confirmed our AAA and Aaa ratings, respectively. The bonds were sold on August 13 and closed September 3. The advance refunding resulted in a cash flow savings of \$7 million and a net present value savings of \$6.9 million.

Louisville Water is firmly poised to continue with our mission of providing this life line to the community. 2015 holds exciting projects for innovation and value to our customers, shareholder, and community partners.

AVERAGE RESIDENTIAL MONTHLY BILL  
*based upon median usage of 5,000 gallons per month*

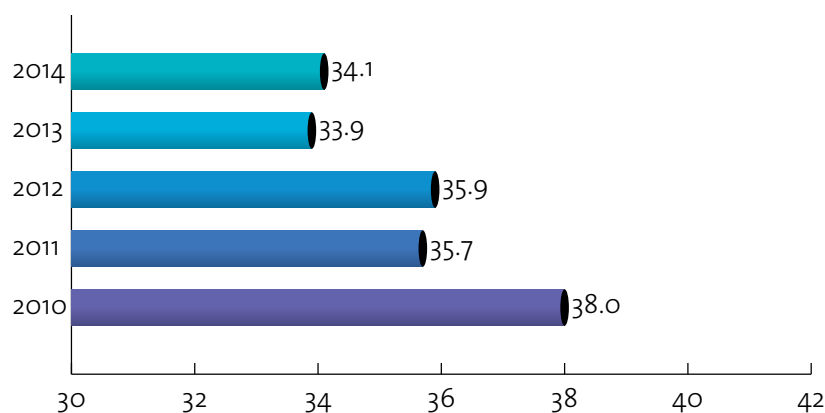


2014 WATER REVENUE





### TOTAL CONSUMPTION (in billion gallons)



### SALE OF WATER REVENUE ANALYSIS

	number of customers at December 31		consumption - ytd (1,000) gallons		revenue - ytd (in 000s)	
	2014	2013	2014	2013	2014	2013
Residential	244,138	243,187	13,253,377	13,227,765	\$ 64,467	\$ 62,046
Commercial	22,617	22,514	12,072,760	12,266,561	44,886	43,661
Industrial	384	330	3,927,619	3,613,971	10,474	9,522
Irrigation	12,645	12,159	1,826,118	1,756,470	9,269	8,695
Fire Services	4,348	4,255	37,223	30,630	2,767	2,616
Public Fire Hydrants	23,936	23,841	-	-	12,072	11,603
Metro Govt	617	635	1,053,624	1,188,173	3,763	3,834
Wholesale	6	6	1,938,312	1,814,687	4,080	3,719
GRAND TOTALS	306,927	304,932	34,109,033	33,898,257	\$ 151,778	\$ 146,887

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### OPERATIONS

(amount in millions of gallons)

	2010	2011	2012	2013	2014
Water Delivered to Mains (Net System Delivery)	46,234	44,036	43,676	42,281	43,302
Average Daily Pumpage	128	122	121	116	119
Maximum Daily Pumpage	173	188	185	153	155
Percent of Water Metered	83%	82%	83%	81%	79%
Average Residential Monthly Water Bill*	\$19.16	\$19.83	\$20.63	\$21.40	\$22.19

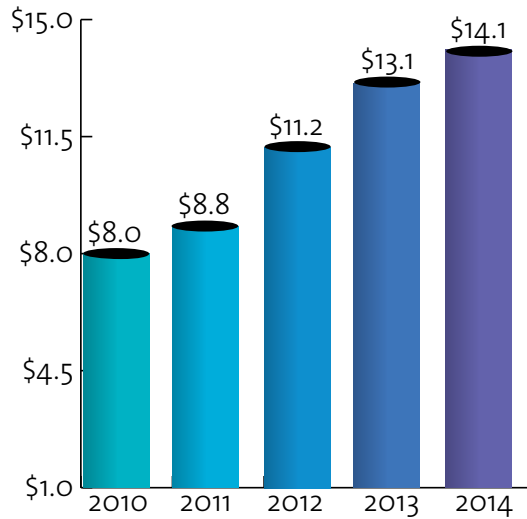
\*based upon median usage of 5,000 gallons per month

### HISTORICAL REVIEW

(000s)

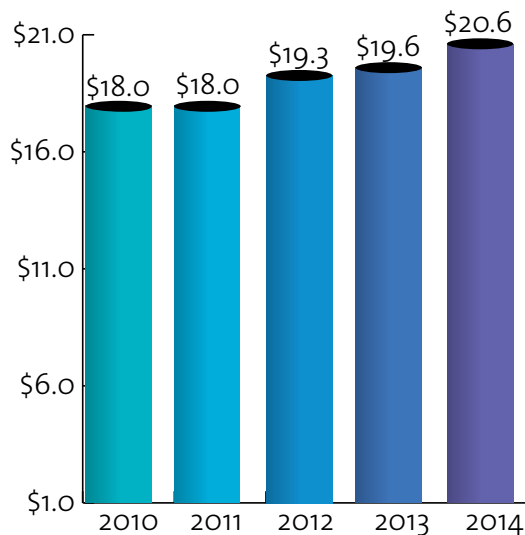
	2010	2011	2012	2013	2014
Operating Revenues	\$ 148,366	\$ 148,193	\$ 158,047	\$ 158,824	\$ 165,896
Total Operating Expenses	\$ 99,455	\$ 105,441	\$ 109,328	\$ 109,926	\$ 116,297
Net Non-operating Income (Expenses)	\$ (7,403)	\$ (7,933)	\$ (6,990)	\$ (8,052)	\$ (7,206)
Net Income before distributions, contributions and extraordinary items	\$ 41,508	\$ 34,819	\$ 41,728	\$ 40,846	\$ 42,392

OTHER OPERATION REVENUES (in millions)

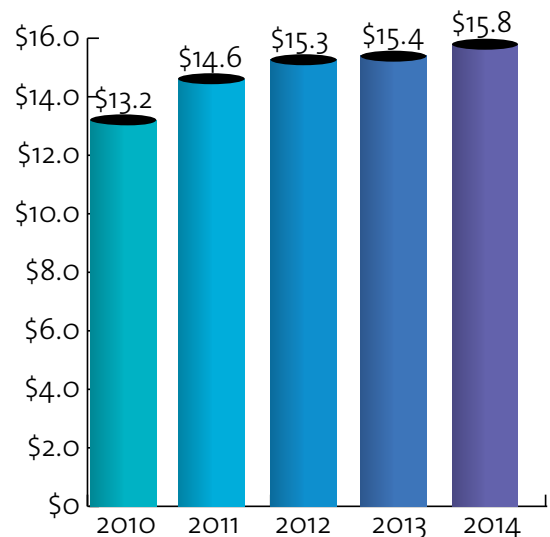


Louisville Water has seen a steady growth in Other Operation Revenues. The company has a focus on growing this line of revenue as water consumption declines. Major initiatives include partnerships with Hardin County Water District 1 for operation of the Ft. Knox Treatment Plant and River Ridge contract operations in Southern Indiana. Louisville Water bills for other providers, including MSD and smaller sewer companies, and continues to expand our partnership with Home Serve, a service line protection and warranty program. Total Operating Revenues are budgeted at \$14.5 million in 2015, which is almost two times the revenue in 2010.

DIVIDENDS DECLARED (in millions)

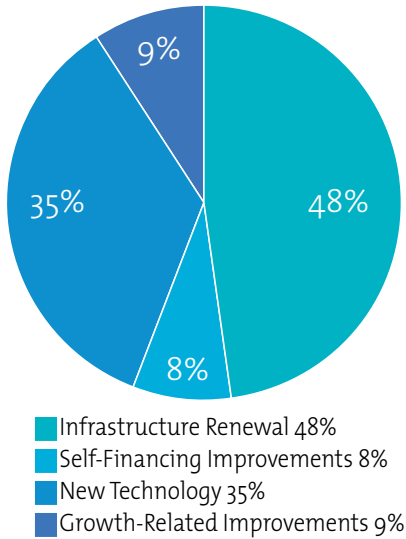


WATER AND FIRE SERVICE PROVIDED IN LIEU OF TAXES (in millions)

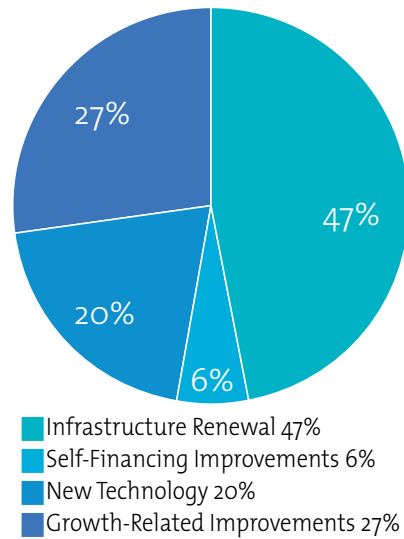


## FINANCIAL PERFORMANCE - CAPITAL

2014  
CAPITAL IMPROVEMENT PLAN



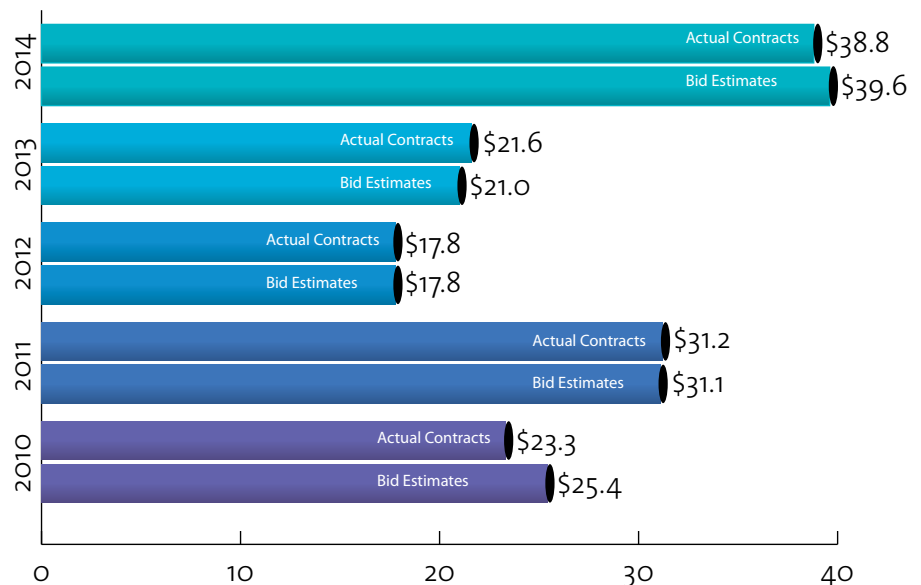
2015  
CAPITAL IMPROVEMENT PLAN



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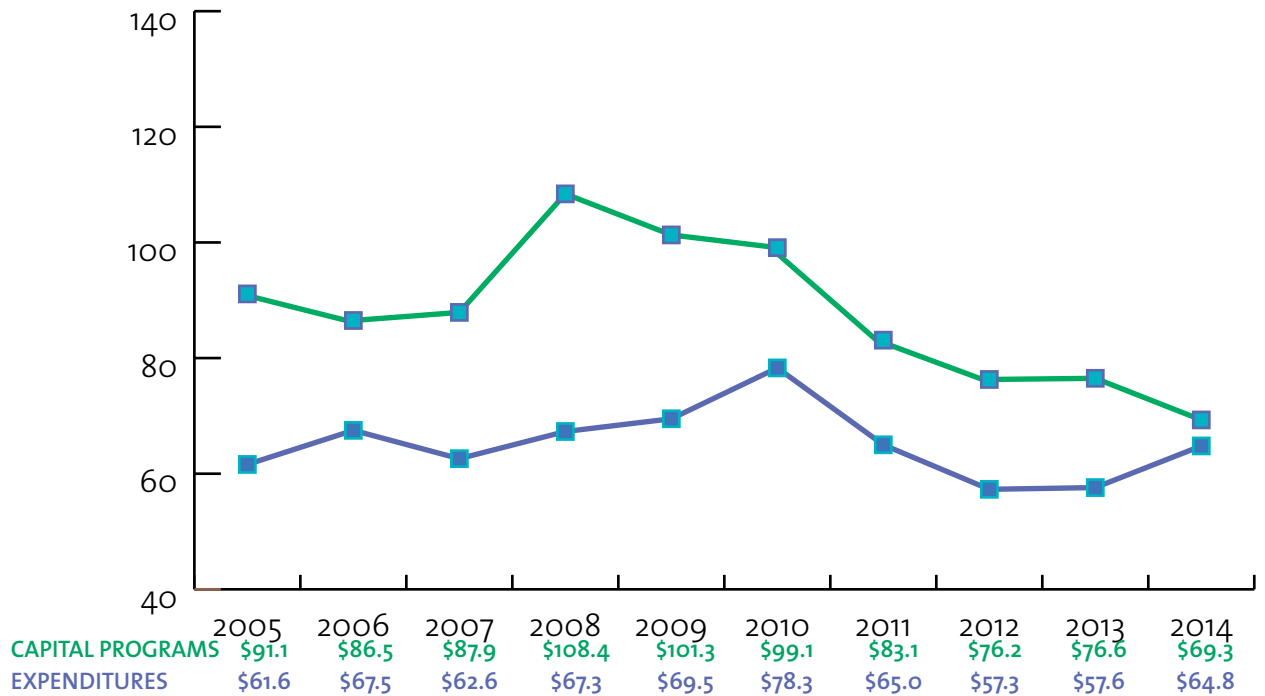
CAPITAL BIDS (in millions) estimates versus actual contracts

Louisville Water executed 93% of its capital plan in 2014. The increased investment includes new technology for the customer care and billing project and upgrades at the treatment plants.



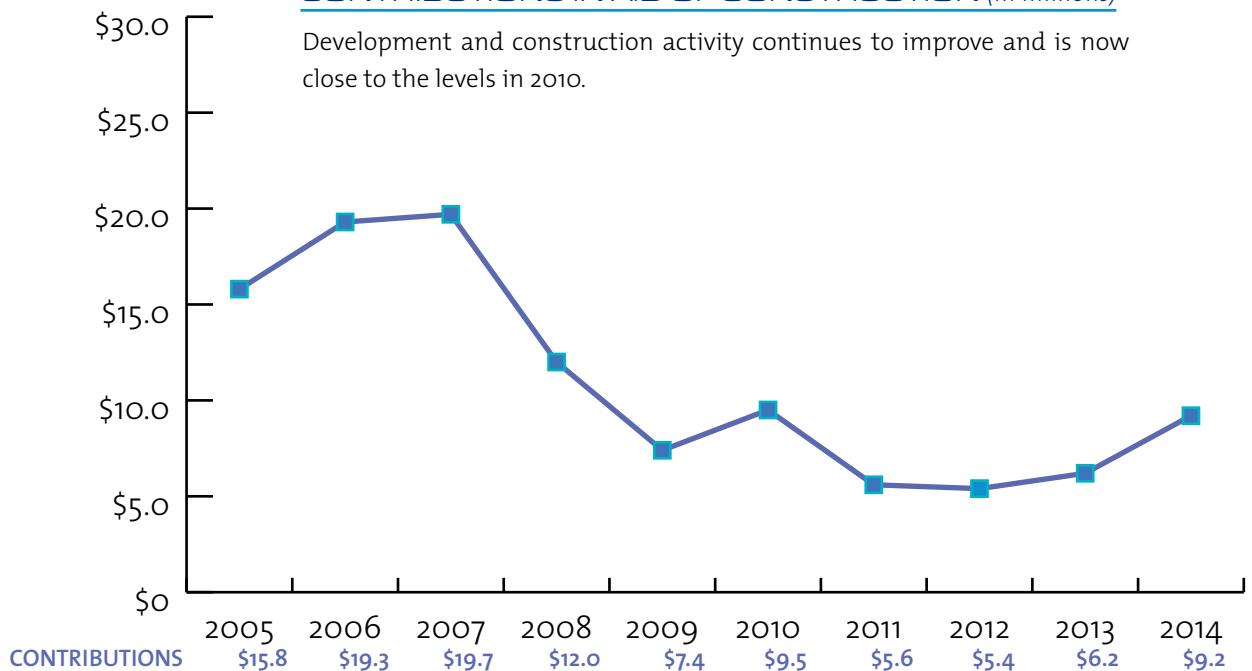


TOTAL CAPITAL PROGRAM AND EXPENDITURES (in millions)



CONTRIBUTIONS IN AID OF CONSTRUCTION (in millions)


Development and construction activity continues to improve and is now close to the levels in 2010.





Louisville Water's customer base includes Louisville Metro/Jefferson County and parts of Bullitt, Nelson, Oldham, Shelby and Spencer counties. The company has wholesale contracts with Hardin County Water District 1, Hardin County Water District No. 2, Lebanon Junction, Mount Washington, North Nelson Water District, North Shelby Water Company, Taylorsville and West Shelby Water District.

Louisville Water operates two treatment plants: the Crescent Hill Filtration Plant has a capacity of 180 million gallons per day and the B.E. Payne Water Treatment Plant has a capacity of 60 million gallons per day. Louisville Water draws water directly from the Ohio River at the Crescent Hill Plant and in the aquifer through a riverbank filtration system at the B.E. Payne Plant.

	
<i>Average Daily Delivery</i>	<i>119.2 million gallons</i>
<i>Total Miles of Pipe</i>	<i>4,170</i>
<i>Fire Hydrants</i>	<i>23,952</i>
<i>Valves</i>	<i>52,641</i>
<i>Water Main Breaks</i>	<i>589</i>

Louisville Water has a goal of reducing water main break frequency to 15 breaks per 100 miles of pipe per year by 2017. The main break frequency for 2014 was 17.1 breaks per 100 miles.

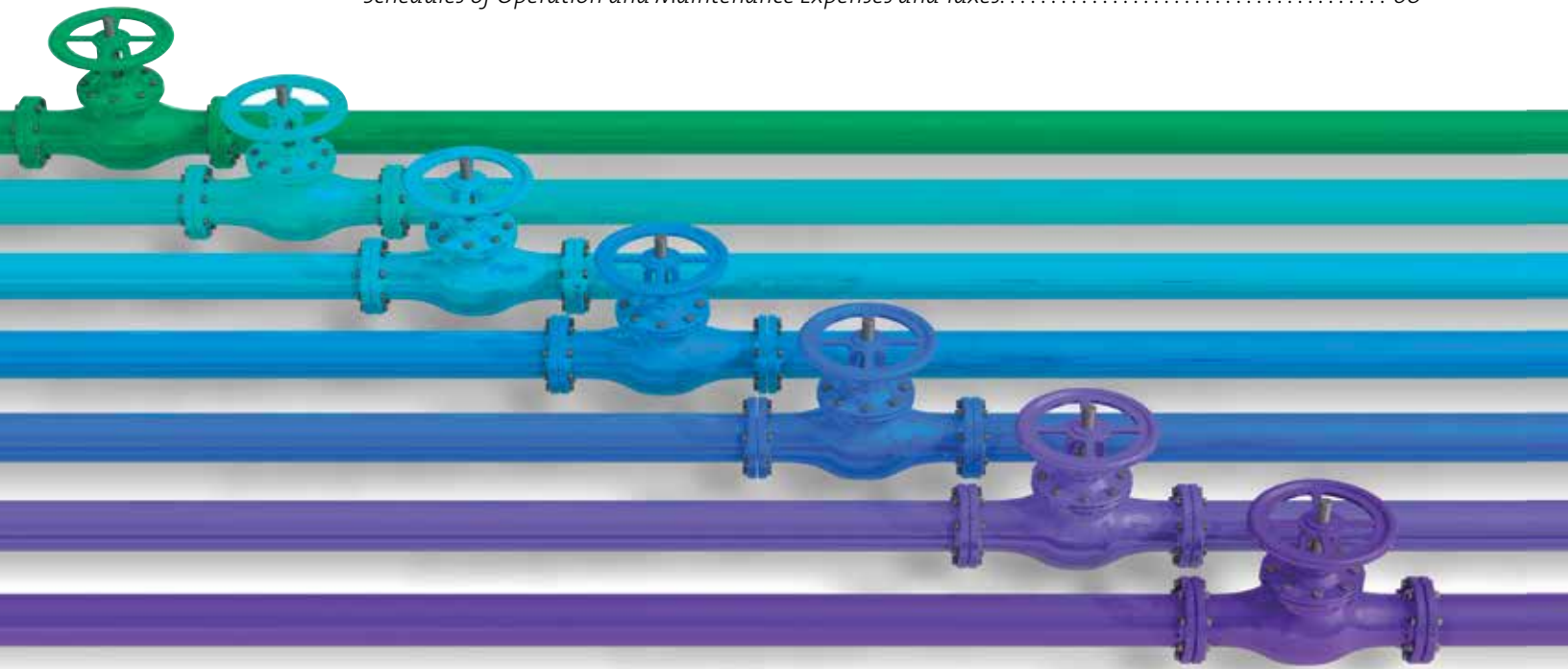
Louisville Water Company

FINANCIAL STATEMENTS

December 31, 2014

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## INDEPENDENT AUDITOR'S REPORT

*Board of Water Works  
Louisville Water Company  
Louisville, Kentucky*

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Louisville Water Company (the "Company"), a component unit of the Louisville/Jefferson County Metro Government, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Water Company as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### OTHER MATTERS

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 27 through 34 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### SUPPLEMENTARY INFORMATION

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisville Water Company's financial statements. The supplemental schedules of investments, bond issues, bond indebtedness and annual debt service requirements, and operation and maintenance expenses and taxes are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental schedules of investments, bond issues, bond indebtedness and annual debt service requirements, and operation and maintenance expenses and taxes are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the financial statements as a whole.



Crowe Horwath LLP  
Louisville, Kentucky  
March 20, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### LOUISVILLE WATER COMPANY

*December 31, 2014 and 2013*

The following discussion and analysis of Louisville Water Company's (the "Company" or "Louisville Water") financial performance provides an overview of the Company's financial activities for the fiscal year ended December 31, 2014 as compared with the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplemental Information. The Financial Statements also include notes that explain in more detail some of the information in the Financial Statements. The statements are followed by a section of Supplemental Information that further explains and supports the information in the Financial Statements. The Financial Statements of the Company report information about the Company using accounting methods similar to those used by private-sector water utility companies, except for the reporting of contributions in aid of construction, equity capital and retained earnings. For financial reporting purposes, the Company is considered a Special-purpose Government Engaged Only in Business-type Activities. These statements offer short and long-term financial information about its activities.

The Statement of Net Position includes all of the Company's assets and liabilities, and it provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). It also provides the basis for evaluating the capital structure of the Company and assessing the liquidity and financial flexibility of the Company.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Company's operations in meeting financial objectives over the past year and can be used to determine whether the Company has successfully recovered all of its costs through its water rates and other charges, has earned a profit, and has maintained credit-worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Company's cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. The statement provides information on the sources and uses of cash and the changes in cash balances during the year.

### SUMMARY OF 2014 PERFORMANCE

Louisville Water had a much better year financially in 2014, as 2013 reported the lowest water consumption since 1969. While customers (services) and miles of main have increased, Louisville Water, like most other water utilities in the country, is experiencing declining water consumption. Total 2014 consumption of 34.1 billion gallons was under budget by 2.0% and over prior year by 0.6%. The entire industry is experiencing changes in consumption patterns related to the recovering economy, low-flow plumbing fixtures and a general conservation of resources. In 2013, the Company reduced the average consumption used for residential customers from 6,000 gallons to 5,000 gallons per month when describing rate increases and reduced the budgeted level of consumption by 4.7% in 2014. The average usage per residential household was 4,500 gallons per month in 2014. With this unfavorable variance to budget in water revenue, a focused effort was required to reduce operating expenses without sacrificing our commitment to a safe, reliable water supply and still meeting our obligations to bondholders and our shareholder, Louisville/Jefferson County Metro Government ("Louisville Metro").



The Company also focused on other sources of revenue generation by continuing contracts with Hardin County Water District No.1 and River Ridge Commerce Center to operate their water plants and by executing contracts with the City of Lebanon Junction and Hardin County No. 2 for additional wholesale water sales beginning in 2014 and 2016, respectively. The company also sold real property and property interests, when appropriate and declared as surplus, to generate income. Overall, while managing through the lower consumption patterns, year-end net income before distributions and contributions totaled \$42.4 million and resulted in a return for our shareholder of 8.3%. Louisville Water provided a dividend of \$20.6 million and free water and fire protection valued at \$15.9 million for a total shareholder value of \$36.5 million. Louisville Water continues to provide safe, reliable water at affordable rates to our customers and a competitive return to our shareholder, Louisville Metro. In December 2009, Louisville Water was upgraded to AAA by Standard and Poor's and recalibrated to Aaa by Moody's in May of 2010. Both ratings were affirmed in September of 2014 as part of the partial advance refunding of the 2006 Series Bond Issue.

#### FINANCIAL HIGHLIGHTS

- Total Net Position increased by \$30,927,799, or 3.6%, primarily due to increases in Utility Plant due to investment in the water system and a decrease in liabilities due to a large principal bond payment in 2014.
- Operating Revenues increased by \$7,071,205, or 4.5%, due to a 3.69% rate increase January 1, 2014 and contract operations for water plants, home warranty services and other utilities for sewer billing services. Water sales in 2014 of 34.1 billion gallons were 211 million gallons or 0.6% above 2013 sales of 33.9 billion gallons.
- Operating Expenses increased by \$6,371,264, or 5.8%, due to increases in Operations and Maintenance, Depreciation and Disposal of Asset expense.
- Net Non-Operating Expenses decreased by \$846,413, or 10.5%, primarily due to the partial advance refunding of the 2006 Series Bond Issue.
- Net Income before Distributions and Contributions increased by \$1,546,354, or 3.8%, primarily due to increased revenues and decreased net non-operating expenses.
- Dividends Paid and Payable increased by \$977,629, or 5.0%, due to increased net income in 2014 and three-year averaging of adjusted net income for the dividend calculation.

#### STATEMENT OF NET POSITION

Total Net Position increased by \$30.9 million, or 3.6%, in 2014 (see Figure 1). The largest portion of Net Position is Net Utility Plant, which increased by \$30.0 million in 2014 through capital improvements. The capital improvements were funded by the 2009 bond issue, cash generated from operations and Contributions in Aid of Construction from developers, customers, and governmental agencies. Noncurrent Assets decreased by \$33.9 million primarily due to cash used from reserves to fund capital improvements and movement to Current Assets. Current Assets increased by \$21.0 million, primarily due to an increase in cash and temporary investments from customers and movement from noncurrent assets. Long-term Liabilities decreased by \$14.0 million resulting from bond principal payments due in 2014.

**FIGURE 1****Condensed Statement of Net Position**

	2014	2013	Difference	Percent	2012
Current Assets	\$ 93,439,672	\$ 72,438,969	\$ 21,000,703	29.0%	\$ 65,061,610
Noncurrent Assets	38,030,067	71,920,918	(33,890,851)	(47.1%)	91,597,243
Loss on Refunding of Debt	7,286,355	2,689,792	4,596,563	170.9%	3,161,286
Net Utility Plant	1,029,756,761	999,753,283	30,003,478	3.0%	978,322,022
Total Assets and Deferred Outflows	1,168,512,855	1,146,802,962	21,709,893	1.9%	1,138,142,161
Current liabilities	56,674,842	51,866,528	4,808,314	9.3%	51,988,376
Long-term Liabilities	225,289,614	239,315,834	(14,026,220)	(5.9%)	257,901,687
Total Liabilities	281,964,456	291,182,362	(9,217,906)	(3.2%)	309,890,063
Total Net Position	\$ 886,548,399	\$ 855,620,600	\$ 30,927,799	3.6%	\$ 828,252,098

**2013 COMPARED TO 2012**

Total Net Position increased by \$27.4 million, or 3.3%, in 2013 compared to 2012. The largest portion of Net Position is Net Utility Plant, which increased by \$21.4 million in 2013 through capital improvements. Long-term Liabilities decreased by \$18.6 million related to bond principal payments made in 2013.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Operating Revenues increased by \$7 million, or 4.5%, in 2014 (see Figure 2). Total water consumption increased by 211 million gallons, or 0.6%, in 2014. Water rates increased 3.69% January 1, 2014. Despite the very slight increase in consumption, the water rate increase coupled with an increase in other operating revenue related to contract operations resulted in an increase in operating revenues.

Operating Expenses increased by \$6.4 million, or 5.8%, in 2014. The key components of operating expenses are: Operation and Maintenance Expenses, Depreciation and Amortization, Taxes and Water Service Provided in Lieu of Taxes, and Loss on Disposition of Assets. Operation and Maintenance Expenses increased \$2.2 million, due to an unusually cold winter resulting in a much higher number of main breaks in the first quarter of 2014 and increased claims. Depreciation and Amortization Expense increased by \$1.2 million due to increased investments in utility plant. Taxes and Water and Fire Service Provided in Lieu of Taxes increased by \$439 thousand due to increased water rates and fire hydrant charges.

Net Non-Operating Expenses (non-operating expenses less non-operating income) decreased by \$846 thousand, or 10.5%, in 2014. This is primarily related to a partial advance refunding of the 2006 Series Bond Issue in 2014.

Net Income before Distributions and Contributions increased by \$1.5 million, or 3.8%, in 2014, primarily due to the rate increase, expense control and the advance refunding. The formula for computing the dividend is established as a covenant in the Series 2009 Bond Resolution (the Master Bond Resolution) and is 50% of net income after certain stated deductions. A three-year averaging is used to adjust for the volatility in net income resulting from the unpredictability of the weather. Dividends Paid and Payable increased by \$978 thousand, or 5.0%, from \$19.6 million to \$20.6 million due to increased net income.

Contributions in Aid of Construction are comprised of: pipeline contributions from developers for water main extensions and from governmental agencies for water main relocations; service installation fees from customers; apportionment warrant fees and tapping fees from customers to extend water service to unserved areas; and system development charges from customers for growth-related expansion. The level of capital contributions varies from year to year and is affected by economic cycles. These types of projects are fully funded or nearly fully funded by outside entities in advance of construction. Contributions in Aid of Construction increased by \$3 million, or 48.5%, from the previous year due to increased developer activity in 2014. This is still appreciably reduced from the \$9.3 million that was received in 2006.

**FIGURE 2****Condensed Statement of Revenues, Expenses and Changes in Net Position**

	2014	2013	Difference	Percent	2012
Operating Revenues	\$ 165,895,514	\$ 158,824,309	\$ 7,071,205	4.5%	\$ 158,046,893
Operating Expenses	116,297,216	109,925,952	6,371,264	5.8%	109,328,401
Net Operating Revenue	49,598,298	48,898,357	699,941	1.4%	48,718,492
Net Non-Operating Expenses	7,205,817	8,052,230	(846,413)	(10.5%)	6,990,056
Net Income Before Distributions and Contributions	42,392,481	40,846,127	1,546,354	3.8%	41,728,436
Dividends Paid and Payable	20,626,741	19,649,112	977,629	5.0%	19,342,720
Contributions in aid of construction	9,162,059	6,171,487	2,990,572	48.5%	5,381,939
Increase in net position	30,927,799	27,368,502	3,559,297	13.0%	27,767,655
Net position, beginning of year	855,620,600	828,252,098	27,368,502	3.3%	800,484,443
Net position, end of year	\$ 886,548,399	\$ 855,620,600	\$ 30,927,799	3.6%	\$ 828,252,098

**2013 COMPARED TO 2012**

Operating Revenues increased by \$777 thousand, or 0.5%, in 2013 compared to 2012. Total water consumption decreased by 2 billion gallons, or 5.7%, in 2013. Operating Expenses increased by \$598 thousand, or 0.5%, in 2013. Net Non-Operating Expenses increased by \$1.1 million, or 15.2%, in 2013 due to an arbitrage refund from a prior bond rebate refunded in 2012. Net income before Distributions and Contributions decreased by \$882 thousand, or 2.1%, and the dividend to our shareholder Louisville Metro increased by \$306 thousand, or 1.6%, in 2013.

**STATEMENT OF CASH FLOWS**

Cash and Temporary Investments at the end of 2014 were \$22.3 million, or 64.1%, higher than at the end of 2013 (see Figure 3). Cash from Operating Activities increased by \$15.4 million due to an increase in cash received from customers and a decrease in cash paid to suppliers and others. Cash used in Capital and Related Financing Activities increased by \$6.3 million related to increase in capital investments. Cash from Investing Activities increased by \$13.0 million due to the transfer of cash to fund the capital improvement program.

**FIGURE 3****Condensed Statement of Cash Flows**

	2014	2013	Difference	Percent	2012
<i>Cash Flows from:</i>					
Operating Activities	\$ 89,610,781	\$ 74,191,737	\$ 15,419,044	20.8%	\$ 79,777,162
Non-Capital Financing Activities	(20,244,924)	(19,772,262)	(472,662)	2.4%	(19,219,570)
Capital and Related Financing Activities	(81,539,672)	(75,216,490)	(6,323,182)	8.4%	(78,427,278)
Investing Activities	34,490,013	21,504,610	12,985,403	60.4%	16,410,222
Change in Cash and Temporary Investments	22,316,198	707,595	21,608,603	3053.8%	(1,459,464)
Cash and Temporary Investments, Beginning of Year	34,833,703	34,126,108	707,595	2.1%	35,585,572
Cash and Temporary Investments, End of Year	\$ 57,149,901	\$ 34,833,703	\$ 22,316,198	64.1%	\$ 34,126,108

In addition to the amounts held in Cash and Temporary Investments, Louisville Water also holds funds for capital improvements in reserves totaling \$7.1 million reported as part of Restricted, expendable reserves in Noncurrent Assets on the Statement of Net Position and described in Note 4.

#### 2013 COMPARED TO 2012

Cash and Temporary Investments at the end of 2013 were \$34.8 million which was 2.1% higher than at the end of 2012. Cash from Operating Activities decreased by \$5.6 million due to a decrease in cash from customers and an increase in cash paid to suppliers and others.

#### CAPITAL ASSETS

Louisville Water uses a five-year Capital Improvement Program (“CIP”) that is updated annually. Every five years, a twenty-year facility plan is prepared by our Consulting Engineer. The most recent Facilities Plan was prepared by Camp, Dresser and McKee in 2010. Development of the CIP is based on the Company’s current Facilities Plan and recommendations from the biannual inspection of facilities. The CIP also identifies anticipated capital expenditures for a total of ten years. The Company’s current Facilities Plan covers the years from 2012 through 2030. The Company expects to invest \$431.5 million in improvements during 2015-2019.

The key capital projects for 2015 are infrastructure renewal, new technology and facilities (including replacement of customer billing system and automated meter reading), improvements to storage and boosted pressure systems and transmission and distribution system growth and improvements. This plan is currently being updated by CH2M Hill and will be presented to the Board in September of 2015.

#### DEBT ADMINISTRATION

As of December 31, 2014, the Company has principal outstanding of \$5.6 million for the Series 2006 Bonds, \$70.9 million for the Series 2009A Bonds, \$86.7 million for the Series 2009B Bonds, \$62.6 million for the Series 2014A Bonds, and \$1.7 million for the ARRA loan for a total of \$227.5 million (Note 8). As shown in Figure 4, the debt service coverage of 2.17 times in 2014 is favorable to the statutory and bond resolution limits of 1.3 times. The Series 2006 Bonds were partially advance refunded in September of 2014. The remaining Series 2006 Bonds have a combination of insured and uninsured maturities through 2016 and carry ratings of Aaa from Moody’s and ratings of AAA from Standard & Poor’s. The Series 2009A and 2009B Bonds are not insured, callable beginning in 2019 and carry ratings of Aaa from Moody’s and ratings of AAA from Standard & Poor’s. The Company was upgraded in December 2009 to AAA from Standard & Poor’s and affirmed in March 2013 and recalibrated to Aaa from Moody’s in May of 2010 and affirmed in June 2011. Both ratings were affirmed in September of 2014.

**FIGURE 4**

#### **Debt Service Coverage**

	2014	2013	Difference	Percent	2012
Income Available for Debt Service	\$ 55,298,436	\$ 52,692,085	\$ 2,606,351	4.98%	\$ 53,368,852
Current Aggregate Net Debt Service	25,525,971	25,977,730	(451,759)	(1.74%)	27,578,535
Coverage Times	2.17	2.03	0.14	6.90%	1.94

The Company’s debt rating is among the highest in the United States for water utility revenue bonds.

#### ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

Management believes that the 2015 Budget adequately addresses all revenue requirements. Water rates increased for retail water service by 3.5% on January 1, 2015. Water rates for wholesale customers are recommended to increase on July 1, 2015. Rate changes for three wholesale customers are subject to approval by the Kentucky Public Service Commission.



Management believes that the most challenging economic issues facing Louisville Water in 2015 will be the continued decrease in water consumption due to low-flow plumbing fixtures and conservation. Management plans to pursue strategies to assure steady top-line revenue growth and profitability through: increasing water sales within the boundaries of the existing service area; pursuing traditional growth opportunities for wholesale and retail service; pursuing non-traditional growth opportunities through mergers, acquisitions, joint ventures and management contracts; and pursuing new or expanded related business opportunities that capitalize on our existing competencies, expertise and strengths. In 2014, Management executed a Comprehensive Interlocal Agreement (“ILA”) with the Metropolitan Sewer District (“MSD”) to create synergies and reduced expenses while maintaining our commitment to provide a safe, reliable water supply.

#### COMPUTATION OF STOCKHOLDER’S EQUITY

Stockholder’s equity for Louisville Water is no longer published in the audited financial statements following adoption of GASB 34 in 2002. Using the common stock, retained earnings, and total equity capital reported in the 2001 audited financial statements and using Income before Distributions and Contributions less Dividends Paid and Payable from audited financial statements for subsequent years, Figure 5 below describes management’s computation of stockholder’s equity for the years ended December 31, 2014, 2013 and 2012.

**FIGURE 5**

#### **Computation of Stockholder’s Equity**

	<i>2014</i>	<i>2013</i>	<i>Difference</i>	<i>Percent</i>	<i>2012</i>
<b>Total equity capital, Beginning of year</b>	\$ 511,032,744	\$ 489,835,729	\$ 21,197,015	4.33%	\$ 467,450,013
Plus Income Before Distributions and Contributions	42,392,481	40,846,127	1,546,354	3.79%	41,728,436
Less Dividends Paid And Payable	20,626,741	19,649,112	977,629	4.98%	19,342,720
<b>Total Equity Capital, End of Year</b>	<b>532,798,484</b>	<b>511,032,744</b>	<b>21,765,740</b>	<b>4.26%</b>	<b>489,835,729</b>
Less Cumulative Deposits To Infrastructure Replacement Reserve	44,053,333	42,053,333	2,000,000	4.76%	42,053,333
<b>Stockholders’ Equity Eligible for Return Computation</b>	<b>\$ 488,745,151</b>	<b>\$ 468,979,411</b>	<b>\$ 19,765,740</b>	<b>4.21%</b>	<b>\$ 447,782,396</b>

The adjusted net income for 2014 for dividend and return on equity computation was \$42,392,481. The return on equity earned by Louisville Water in 2014 was 8.3%.

#### COMPARATIVE ANALYSIS OF FINANCIAL RESULTS

To optimize long-term financial viability, Louisville Water management plans for and monitors five groups of financial metrics: liquidity, capitalization, coverage, profitability and dividend payout. Figure 6 below describes management’s computation of certain financial ratios within each of these groups of metrics.

**FIGURE 6**
**Comparative Analysis of Financial Results**

<i>Liquidity</i>	<i>Access Readily Available Assets to Meet Near-Term Obligations</i>	<i>2013</i>	<i>2014</i>	<i>2015 Budget</i>	<i>Target</i>
Days of Funded Operations	(Cash + Unrestricted Fund Reserves) / (O&M Expense / 365)	421	356	258	>200
Days of Cash Funded Operations	Cash / (O&M Expense / 365)	200	316	211	>60
<i>Capitalization</i>	<i>Reliance on Debt Financing for Capital Investments</i>	<i>2013</i>	<i>2014</i>	<i>2015 Budget</i>	<i>Target</i>
Long-Term Debt to Net Utility Plant	Long-Term Debt / Net Utility Plant	24.22%	22.09%	30.60%	<35%
Debt to Capitalization	Long-Term Debt / (Long-Term Debt + Unrestricted Stock Equity)	34.05%	31.76%	38.47%	
<i>Coverage</i>	<i>Capacity to Make Debt Service Payments</i>	<i>2013</i>	<i>2014</i>	<i>2015 Budget</i>	<i>Target</i>
Debt Service Coverage	EBIT / Debt Service	2.03	2.17	2.00	Current Target >2.0 Min. >1.30
Debt Service Safety Margin	(O&M Expense + Debt Service) / (Operating Revenue + Non-Operating Revenue)	44.00%	45.13%	44.49%	>30%
EBITDA / Interest Expense	EBITDA / Interest Expense	8.84x	10.10x	11.73x	>5.0x
<i>Profitability</i>	<i>Profitability of the Company</i>	<i>2013</i>	<i>2014</i>	<i>2015 Budget</i>	<i>Target</i>
Return on Equity	(Net Income - IRR - Construction Interest) / Stockholder Equity Eligible for Return	8.71%	8.26%	8.52%	9.8%
Return on Assets	(Net Income - IRR - Construction Interest) / Total Assets	3.57%	3.48%	3.61%	
Return on Net Utility Plant	(Net Income - IRR - Construction Interest) / Net Utility Plant	4.09%	3.92%	4.17%	
Net Profit Margin	(Net Income - IRR - Construction Interest) / Operating Revenue	25.72%	24.35%	24.91%	
Operating Margin	EBITDA / Operating Revenue	59.88%	60.25%	59.43%	
<i>Dividend Payout</i>	<i>Measurement of Distribution of Profit as a Dividend</i>	<i>2013</i>	<i>2014</i>	<i>2015 Budget</i>	
Dividend Payout	Dividends Declared / (Net Income - IRR - Construction Interest)	48.11%	51.07%	47.27%	
Total Transfers	(Water in Lieu of Taxes + Dividends) / Operating Revenue	22.10%	22.01%	21.22%	
Dividend Yield	Dividends Declared / Stockholder Equity Eligible for Return	4.19%	4.22%	4.02%	

#### CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, creditors and stockholder with a general overview of the Company's finances and to show the Company's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's Office at Louisville Water Company, 550 South Third Street, Louisville, KY, 40202.

## FINANCIAL STATEMENTS

### STATEMENTS OF NET POSITION

December 31, 2014 and 2013

	2014	2013
<b>ASSETS</b>		
Current assets		
Cash and temporary investments	\$ 57,149,901	\$ 34,833,703
Accounts receivable, net	21,757,873	22,963,540
Contracts receivable, current portion	586,534	608,317
Notes receivable, current portion	912,500	664,400
Materials and supplies	8,303,457	7,565,214
Restricted, expendable bond service accounts	2,710,800	3,752,906
Other current assets	1,678,247	1,679,151
Accrued interest receivable	340,360	371,738
Total current assets	93,439,672	72,438,969
Utility plant, net of accumulated depreciation	1,029,756,761	999,753,283
Noncurrent assets		
Non-utility property, net	2,701,563	2,785,726
Unamortized bond issuance costs	1,638,310	1,480,587
Contracts receivable	1,172,351	1,439,539
Note receivable	7,704,900	8,617,500
Restricted, expendable reserves	20,085,548	51,732,892
Preliminary engineering charges	315,940	174,883
Prepaid regulatory assets	4,411,455	5,689,791
Total noncurrent assets	38,030,067	71,920,918
<b>Total Assets</b>	<b>1,161,226,500</b>	<b>1,144,113,170</b>
<b>Deferred Outflow of Resources</b>		
Unamortized loss on bond refundings	7,286,355	2,689,792
<b>Total Assets and Deferred Outflow of Resources</b>	<b>\$ 1,168,512,855</b>	<b>\$ 1,146,802,962</b>



## STATEMENTS OF NET POSITION

December 31, 2014 and 2013

	2014	2013
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 9,214,267	\$ 8,849,228
Accounts payable, sewer collections	16,523,183	15,584,176
Customer deposits and advances	6,441,501	5,348,063
Tax collections payable	546,128	510,868
Accrued interest payable	1,264,591	1,446,016
Dividend payable	381,817	-
Contracts payable, retainage percentage	713,352	715,255
Accrued payroll	554,153	473,620
Accrued vacation and sick leave	1,816,776	1,789,409
Insurance reserve	1,340,377	1,187,845
Bonds and notes payable, current portion	17,878,697	15,962,048
Total current liabilities	56,674,842	51,866,528
Long-term liabilities		
Customer advances for construction	599,627	835,124
Unamortized debt premiums and discounts	15,072,334	12,284,359
Bonds and notes payable, less current portion	209,617,653	226,196,351
Total long-term liabilities	225,289,614	239,315,834
<b>Total Liabilities</b>	<b>281,964,456</b>	<b>291,182,362</b>
<b>NET POSITION</b>		
Net investment in capital assets	786,474,725	744,595,270
Unrestricted	77,277,326	55,539,532
Restricted, expendable	22,796,348	55,485,798
<b>Total Net Position</b>	<b>886,548,399</b>	<b>855,620,600</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,168,512,855</b>	<b>\$ 1,146,802,962</b>

see accompanying notes to financial statements

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended December 31, 2014 and 2013

	2014	2013
<b>Revenues</b>		
Operating revenues	\$ 165,895,514	\$ 158,824,309
<b>Operating expenses</b>		
Operation and maintenance expenses	65,948,372	63,713,823
Depreciation	30,423,727	29,215,093
Amortization	496,124	471,614
Water and fire service provided in lieu of taxes	15,893,906	15,454,532
Loss from sale and salvage of retired utility plant assets	3,535,087	1,070,890
Total operating expenses	116,297,216	109,925,952
<b>Net operating revenue</b>	49,598,298	48,898,357
<b>Non-operating revenue (expense)</b>		
Interest income	817,617	1,331,227
Building America Bond refund	1,347,434	1,391,610
Interest expense	(9,370,868)	(10,755,067)
Net non-operating expense	(7,205,817)	(8,052,230)
<b>Income before distributions and contributions</b>	42,392,481	40,846,127
<b>Distributions and contributions</b>		
Dividends paid and payable	(20,626,741)	(19,649,112)
Contributions in aid of construction	9,162,059	6,171,487
Net distributions and contributions	(11,464,682)	(13,477,625)
<b>Increase in net position</b>	30,927,799	27,368,502
Net position, beginning of year	855,620,600	828,252,098
<b>Net position, end of year</b>	\$ 886,548,399	\$ 855,620,600

## STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	2014	2013
<b><i>Cash flows from operating activities</i></b>		
Cash received from customers	\$ 151,384,628	\$ 143,846,854
Cash paid to suppliers and others	(34,688,904)	(43,119,215)
Cash paid to employees for services	(27,084,943)	(26,535,902)
Net cash from operating activities	89,610,781	74,191,737
<b><i>Cash flows from noncapital financing activities</i></b>		
Dividends paid to stockholder	(20,244,924)	(19,772,262)
<b><i>Cash flows from capital and related financing activities</i></b>		
Acquisition and construction of utility plant	(65,197,902)	(53,174,127)
Acquisition of non-utility property	(294,055)	(86,037)
Net proceeds from 2014A Series Bonds	262,502	-
Contributions in aid of construction	9,162,059	6,171,487
Repayment of customer advances for construction	(235,497)	(182,018)
Preliminary engineering charges	(141,057)	83,922
Principal paid	(14,662,049)	(18,110,432)
Interest paid	(10,433,673)	(9,919,285)
Net cash from capital and related financing activities	(81,539,672)	(75,216,490)
<b><i>Cash flows from investing activities</i></b>		
Reserved funds	31,647,344	20,428,084
Restricted funds	1,042,106	(1,095,507)
Contracts receivable	288,971	107,652
Contracts payable, retainage percentage	(1,903)	203,951
Notes receivable	664,500	455,300
Interest received	848,995	1,405,130
Net cash from investing activities	34,490,013	21,504,610
<b><i>Net change in cash and temporary investments</i></b>	22,316,198	707,595
Cash and temporary investments, beginning of year	34,833,703	34,126,108
<b><i>Cash and cash temporary investments, end of year</i></b>	\$ 57,149,901	\$ 34,833,703

## STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	2014	2013
<b>Reconciliation of net operating revenue to net cash from operating activities</b>		
Net operating revenue	\$ 49,598,298	\$ 48,898,357
Adjustments to reconcile net operating revenue to net cash from operating activities		
Depreciation	31,541,432	30,554,070
Amortization	496,124	471,614
Loss from sale and salvage of retired utility plant assets		
Increase (decrease) in cash due to changes in current assets and liabilities	3,535,087	1,070,890
Accounts receivable	1,205,667	(4,573,154)
Materials and supplies	(738,243)	(781,932)
Other current assets	904	(24,958)
Prepaid regulatory assets	1,278,336	(2,051,244)
Accounts payable	365,039	(1,845,522)
Accounts payable, sewer collections	939,007	2,224,721
Customer deposits	1,093,438	1,271,841
Tax collections payable	35,260	(88,723)
Accrued vacation and sick leave	27,367	(19,033)
Accrued payroll	80,533	64,881
Insurance reserve	152,532	(980,071)
Net cash from operating activities	\$ 89,610,781	\$ 74,191,737



## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

**Description of the Business:** Louisville Water Company (the “Company”) is a provider of water and related services to residential, commercial, industrial, fire and wholesale consumers in Jefferson, Bullitt and Oldham Counties. The Company is a component unit of Louisville/ Jefferson County Metro Government (“Louisville Metro”). Throughout its 160 year history, the Company has engaged the communities it serves through philanthropic and charitable outreach activities, directly contributing to improving the health and well-being of those communities.

In 2014, the Company further demonstrated its commitment to the community by founding a nonprofit organization, the Louisville Water Foundation (the “Foundation”). The Foundation’s mission is to improve the health and well-being of the communities it serves and around the world by providing water assistance and water education. The creation of a separate, nonprofit entity allows additional financial and/or in-kind support to flow into the Foundation from a broad base of public and private sources. The related financial activity of the Foundation is not deemed to be a component unit of the Company.

**Basis of Presentation:** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for governmental organizations reporting as a business-type activity and enterprise fund accounting, a type of proprietary fund. Business-type activities are those activities that are financed in whole or in part by fees charged to external parties for goods and services. An enterprise fund is accounted for under the economic resource measurement focus and uses the accrual basis of accounting which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, gains and losses. The financial statements have been prepared on the accrual basis of accounting which allows for revenues to be recognized when earned and expenses to be recorded when an obligation has been incurred.

**Method of Accounting:** The Company adopts common industry accounting policies for water utilities. Although the Company is not subject to regulation, the accounts are maintained in accordance with the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners, except with respect to the treatment of gains and losses from the retirement or disposition of utility plant. The Company recognizes gain or loss, including cost of removal, upon the retirement or disposition of utility plant rather than the transfer of cost to accumulated depreciation, as provided by the National Association of Regulatory Utility Commissioners. Due to the election as a regulated operation under GASB 62, to meet industry accounting standards and follow transactional intent, the Company uses, as applicable, ASC 980, Regulated Accounting.

**Net Position:** The Company classifies resources for accounting and reporting purposes into the following net position categories:

■ **Net Investment in Capital Assets:**

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

■ **Restricted: Restricted net position includes:**

Nonexpendable—Net position subject to externally imposed stipulations that they be maintained permanently by the Company.

Expendable—Net position whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.

■ **Unrestricted:**

Net position whose use by the Company is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Water Works or may otherwise be limited by contractual agreements with outside parties.

**Taxes:** The Company, by virtue of its ownership by Louisville Metro, is exempt from taxation by federal, state and local taxing authorities—however, the Company is liable for certain other taxes and provides water and fire services in lieu of taxes to Louisville Metro. Tax expense, which includes water and fire service provided in lieu of taxes for 2014 and 2013, was \$15,893,906 and \$15,454,532, respectively.

**Union Employees:** The Company has employees who are covered by a collective bargaining agreement. At December 31, 2014 and 2013, approximately 44% and 44% of the Company's full-time employees were covered by a collective bargaining agreement. The existing 5 year collective bargaining agreement expires February 29, 2016.

**Estimates in the Financial Statements:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Statements of Cash Flows:** For purposes of the statements of cash flows, the Company considers all unrestricted highly liquid investments purchased with an original maturity of three months or less to be temporary investments. Significant noncash transactions excluded from the statement of cash flows included accrued utility plant acquisitions of \$1,869,920 and \$2,890,046 for the years ended December 31, 2014 and 2013, respectively. In addition, during 2014 the Company issued bonds to partially refund debt issued in 2006. \$68,149,561 was deposited immediately into an irrevocable refunding escrow for the defeasance of the outstanding bond principal and interest.

**Materials and Supplies:** Material and supply inventories are stated at average cost.

**Utility Plant:** Utility plant is stated at cost of acquisition or construction, including certain indirect costs. Direct purchases with a unit cost of \$2,500 or more and a useful life of greater than one year are capitalized. The Company applies the straight-line method of depreciation to the estimated useful lives of the various classes of depreciable property. The estimated useful lives of some significant asset categories are as follows:

Buildings	50 to 100 years
Pipelines	65 to 100 years
Fire hydrants	50 years
Services	40 years
Meters	15 years
Equipment	5 to 10 years
Trucks and autos	5 years

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Depreciation expense for 2014 was \$31,541,432 of which \$1,117,704 was allocated to other operating expenses. Depreciation expense for 2013 was \$30,554,070 of which \$1,338,977 was allocated to other operating expenses.

**Non-utility Property:** Non-utility property is stated at cost of acquisition or construction, including certain indirect costs. Direct purchases with a unit cost of \$2,500 or more and a useful life of greater than one year are capitalized. The Company applies the straight-line method of depreciation to the estimated useful lives of the various classes of depreciable property. Depreciation expense of non-utility plant was \$378,218 and \$353,708 for 2014 and 2013, respectively.

**Capitalized Interest:** The Company follows the practice of capitalizing interest during construction on capital projects that are debt financed. Interest in the amount of \$1,184,017 and \$932,493 was capitalized during 2014 and 2013, respectively.

**Prepaid Regulatory Assets:** The Company is currently depreciating abandoned plant assets of \$10,702,262 over five to eight years beginning in 2007. Amounts of \$210,829 and \$3,220,556 were added to the account during 2014 and 2013, respectively. The prepaid regulatory assets, stated net of depreciation, can be found on the statement of net position at \$4,411,455 and \$5,689,791 for 2014 and 2013, respectively.

**Investments:** Investments are reported at fair value with gains and losses included in the statements of revenues, expenses and changes in net position. Short-term investments in agency obligations that have a remaining maturity of one year or less at the time of purchase are reported at amortized cost. Gains or losses on dispositions are determined using the specific identification method.

**Allowance for Doubtful Accounts:** The allowance for doubtful accounts is established based on historical collection experience and a review of the current status of existing water, contract and miscellaneous receivables.

**Accrued Vacation and Sick Leave:** Employees' vested and accumulated vacation and sick leave is recorded as a liability on the statement of net position. Accrued vacation and sick leave balances were \$1,816,776 and \$1,789,409 for 2014 and 2013, respectively.

**Customer Deposits:** The Company has implemented a security deposit policy for all customers applying for residential, commercial or industrial water service who: (i) have not had an account with the Company for three consecutive years; or (ii) have had a previous account in bad debt or bankruptcy status; or (iii) have had a service disconnected due to nonpayment within the last three years of service. The Company refunds the security deposit when: (i) a customer closes the account; or (ii) the customer has paid their bill in a timely manner for three consecutive years. Additionally, the Company charges a security deposit for temporary meters for construction. Total security deposits at December 31, 2014 and 2013 were \$3,111,680 and \$3,017,900, respectively. The Company also requires customers to make a deposit for the cost of construction of pipelines and special services. Deposits are refundable to the extent the deposit is in excess of the construction cost. Total construction deposits were \$3,329,821 and \$2,330,163 at December 31, 2014 and 2013, respectively. All customer and security deposits are included as customer deposits and advances in current liabilities on the statement of net position.

**Customer Advances for Construction:** The customer advances for construction accounts reflect the anticipated long-term liability for refunding construction costs based on future new service installations within certain time limits up to 20 years. Once the refund period has expired, any balance is recorded as a contribution in aid of construction in the Company's statements of revenues, expenses and changes in net position. Total customer advances for construction at December 31, 2014 and 2013 were \$599,627 and \$835,124, respectively.

**Debt and Bond Related Costs:** Debt related policies include the following:

- Bonds payable are recorded at the principal amount outstanding, net of any applicable premium or discount.
- Original issue discounts and premiums on bonds are amortized as a component of interest expense using the straight-line method, which approximates the effective interest method, over the lives of the bonds to which they relate.
- Refunding bonds outstanding, which have been refunded and economically defeased, are not included in long-term debt. The related assets are not included in investments. The loss on refunding, which is the difference between the reacquisition price and the net carrying amount of the old debt, is deferred outflow of resources and amortized as a component of interest expense over the average remaining life of the old debt.
- Bond issue costs are capitalized and amortized over the life of the respective bond issue using the straight-line method, which approximates the effective interest method, pursuant to the election of regulatory operation under GASB 62, as they are deemed recoverable through future rates.

**Operating / Non-Operating Revenues and Expenses:** Operating Revenues are those revenues that are generated directly from the primary activity of the Company. These revenues are water service and commodity charges, late and other water-related fees, contract operations and service line fees, and compensation for service provided to others. Operating expenses are expenses incurred through the activities of operating and maintaining the

Company, including depreciation, water provided in lieu of taxes, and loss on disposition of assets. Non-operating revenues and expenses are comprised of investment and financing earnings and cost.

**Revenue:** Operating revenue is recognized in the period in which billings are rendered to consumers. The Company does not accrue revenue for water delivered but not billed.

**Contributed Capital and Construction Grants:** Construction and acquisition of water lines and other facilities and plants are financed, in part, from governmental grants and contributions in aid of construction from property owners and developers. Governmental grants in aid of construction represent the portion of construction cost incurred where paperwork has been submitted to the entity. These amounts are recorded as a receivable and revenues from contributions at the time the documentation is submitted. The revenues from contributions are part of the change in net position.

**Restricted and Unrestricted Funds:** Restricted funds are externally reserved for the purpose of bond debt service, funding of capital construction, and debt service reserves. Unrestricted funds, generated from service fees and other operating income, are used to pay operating expenses. When an expense or outlay is incurred for which both restricted and unrestricted funds are available, it is the Company's practice to use revenue from operations to finance construction, then reimburse from restricted funds as needed. Restricted funds can be used to pay operating expenses in the case of an emergency caused by some extraordinary occurrence, so characterized in a Certificate of an Authorized Officer filed with the Trustee, and an insufficiency of moneys to the credit of the Operation Fund to meet such emergency.

**Reclassifications:** Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation. The reclassifications had no effect on total net position or the change in net position.

**Adoption of New Accounting Pronouncements:** Adoption of these Statements did not have a material impact on the Company's financial position or results of operations.

- *GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement is intended to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.
- *GASB Statement No. 69, Government Combinations and Disposals of Government Operations*, issued January 2013. The provisions of this Statement are effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.
- *GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

**Recent Accounting Pronouncements:** As of December 31, 2014, the GASB has issued the following statements not yet required to be adopted by the Company.

- *GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, issued June 2012. The provisions of this Statement are effective for periods beginning after June



15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Company's management has not yet determined the effect this statement will have on the Company's financial statements. However, it will likely result in the recording of a net pension liability on the statement of net position.

■ *GASB Statement No. 71 - Pension Transition For Contributions Made Subsequent To The Measurement Date—* An Amendment of GASB Statement No. 68, issued in November 2013, and effective concurrent with GASB 68. The Statement addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The Company's management has not yet determined the effect this statement will have on the Company's financial statements.

■ *GASB Statement No. 72 – Fair Value Measurement and Application*, issued February 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. The Statement addresses accounting and financial reporting issues related ; to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. The Company's management has not yet determined the effect this statement will have on the Company's financial statements.

#### **NOTE 2 – ACCOUNTS RECEIVABLE**

*Accounts receivable as of December 31, 2014 and 2013 include:*

	2014	2013
Water	\$ 5,672,759	\$ 5,949,693
Sewer	15,273,797	14,347,436
Other	1,540,586	3,379,733
	22,487,142	23,676,862
Allowance for doubtful accounts	(729,269)	(713,322)
	\$ 21,757,873	\$ 22,963,540

#### **NOTE 3 – NOTES RECEIVABLE**

On February 8, 2011, the Board of Water Works approved a resolution to provide a \$10,000,000 promissory note to Louisville Metro at a 2% annual interest rate. The promissory note is to be repaid over five years beginning March 15, 2012 with a final balloon payment in the fifth year. Louisville Metro has the option to refinance the remaining balance for one additional five-year term.

The following is a summary of scheduled repayments on the above note receivable:

	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
<i>Year ending December 31,</i>			
2015	\$ 912,500	\$ 172,400	\$ 1,084,900
2016	7,705,000	138,700	7,843,700
	\$ 8,617,500	\$ 311,100	\$ 8,928,600

#### **NOTE 4 – 2009 MASTER BOND RESOLUTION FUNDS**

The Company maintains a 2009 Master Bond Resolution (“Resolution”) that documents the legal requirements for the outstanding bonds payable for the 2006, 2009 and 2014 bond series. The following accounts and funds are established for bond series unless specifically noted:

**Bond Reserve Account:** The Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The reserve is invested in repurchase agreements and a government obligation mutual fund and is stated at fair value.

**Depreciation Fund:** The Resolution requires the Company to make monthly deposits of an amount equal to one-twelfth of an amount not less than the annual depreciation charges into a depreciation fund. The balance includes interest income earned and the gain on sale of property and is available to fund capital improvements to the water system. The individual fund accounts are collateralized by pledged assets guaranteed under a U.S. Treasury program, insured by the FDIC or invested in a sweep account.

**Infrastructure Replacement Reserve Fund:** The Resolution provides for the funding of the Infrastructure Replacement Reserve Fund to support the infrastructure main replacement and rehabilitation projects. Budgeted funding was \$2,000,000 and \$2,000,000 for 2014 and 2013, respectively. There were no deposits made during 2013. The balance at December 31, 2014 is invested in an account collateralized by pledged assets and stated at fair value.

**Bond Service Account:** Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee’s Bond Service Account, one-sixth of the amount of the next succeeding interest payment on both the Series 2014A, 2009A and 2009B Bonds and 2006 Bonds outstanding and one-twelfth of the next maturing principal of those related bonds. The account is invested in government obligation mutual funds and is stated at fair value.

**Revenue:** The Resolution requires all Revenues received by the Company and not required to be deposited elsewhere or otherwise reserved for Special Investments will be collected by the Company and deposited with a Depository or Depositories to the credit of the Revenue Fund.

**Operation Fund:** Per the Resolution, each month the Company shall, after making required payments to the Bond Service Account, the Bond Reserve Account, and the Depreciation Fund, withdraw from the Revenue Fund and deposit with a Depository in the name of the Company to the credit of the Operation Fund the balance remaining in the Revenue Fund.

**Rebate Fund:** The Rebate Fund is created by the Resolution. Monies credited to the Rebate Fund shall be free from the lien of the Resolution. Payments shall be made by the Board of Water Works and the Company within 15 days following each five-year computation period for the calculation of excess rebateable arbitrage under the Internal Revenue Code. The Board and the Company have covenanted to rebate excess earnings to the United States in accordance with law. There were no deposits required to be made to this fund during 2013 or 2014.

The Company has Restricted Bond Debt Service accounts and Reserve Fund assets within cash and investments as follows:

	2014	2013
Restricted Bond Debt Service:		
Series 2006	\$ 262,469	\$ 757,666
Series 2009A	1,607,591	2,587,096
Series 2009B	395,730	408,144
Series 2014	445,010	-
Total Restricted Bond Debt Service	\$ 2,710,800	\$ 3,752,906
Reserve Fund Assets:		
Bond related reserves:		
Bond reserve account	\$ 12,995,794	\$ 13,145,525
Capital related reserves:		
Depreciation fund	1,323,714	13,866,638
Infrastructure replacement	5,766,040	24,720,729
Total capital related reserves	7,089,754	38,587,367
Total Reserve Fund Assets	\$ 20,085,548	\$ 51,732,892

#### **NOTE 5 – CASH AND INVESTMENTS**

The Company has adopted the provisions of GASB Statement No. 40, Deposits and Investment Risk Disclosures. This statement adds certain additional disclosures about cash and investments, including common areas of investment risk.

The Company's investment policy specifies that the primary objectives, in priority order, of investment activities are safety, liquidity and yield. In addition, funds are to be invested in conformity with federal, state and other legal requirements, including bond resolutions.

At December 31, 2014, in addition to reserve fund and bond service account balances with trustees, as reflected in Note 4, the Company had \$60,120,919 of cash deposits with financial institutions held in temporary investments collateralized by the financial institutions with pledged assets.

Information related to all cash and investments for December 31, 2014 and 2013 is included below.

	<i>Fair Value</i>	<i>Weighted Average Maturity in Years</i>	<i>Credit Rating</i>
<i>December 31, 2014</i>			
Reserve and Bond Service Accounts:			
Mutual funds	\$ 4,977,276	0.13	Aaa
Repurchase agreement (GIC)	10,729,318	9.86	Aaa
Total Investments	15,706,594	6.78	
Pledged securities/cash	7,089,754		
Total	22,796,348		
Cash in bank	60,120,919		
Petty cash	3,902		
Checks outstanding and deposits in transit	(2,974,920)		
Cash and temporary investments	57,149,901		
Total cash and investments	\$79,946,249		
<i>December 31, 2013</i>			
Reserve and Bond Service Accounts:			
Mutual funds	\$ 6,169,113	0.15	Aaa
Repurchase agreement (GIC)	10,729,318	10.86	Aaa
Total Investments	16,898,431	6.95	
Pledged securities/cash	38,587,367		
Total	55,485,798		
Cash in bank	37,857,567		
Petty cash	3,402		
Checks outstanding and deposits in transit	(3,027,266)		
Cash and temporary investments	34,833,703		
Total cash and investments	\$ 90,319,501		

**Custodial Credit Risk – Deposits:** Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company does not have a formal deposit policy for custodial credit risk, however, the Company has accounts set up to mitigate this risk: (i) certain deposits are collateralized by pledged assets; and (ii) insurance provided by the FDIC; and (iii) accounts are set up with overnight sweep accounts so that cash is invested in short- term, liquid investments daily to minimize the amount of cash not covered by insurance provided by the FDIC. In 2011 the Company updated their formal investment policy describing the investments the Company can purchase.

**Custodial Credit Risk – Investments:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to mitigate this risk, the Company's investments are held in the name of the Company by a trustee. The Company also diversifies the investment portfolio and limits the investments to certain types of securities listed in the Investment Policy.

**Concentration of Credit Risk:** The Company has a formal investment policy limiting the amount it may invest in any one issuer to 5%.

**Interest Rate Risk:** The Company does not have a formal policy limiting maturities of its investments. Investments are made based on the prevailing market conditions and anticipated cash needs at the time of the transaction.

**Credit Risk:** The Company has historically only purchased investment grade securities. The Standard & Poor's rating for the U.S. Treasury Bonds listed above is AA+.

#### **NOTE 6 – UTILITY PLANT, NET**

The following is a schedule of utility plant for the year ended December 31, 2014:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>
Capital assets not being depreciated				
Land	\$ 11,934,153	\$ 495,051	\$ (486,449)	\$ 11,942,755
Construction in progress	47,044,268	63,762,541	(41,717,725)	69,089,084
Total	58,978,421	64,257,592	(42,204,174)	81,031,839
Other capital assets				
Buildings	182,285,953	7,018,530	(577,017)	188,727,466
Machinery and equipment	60,511,748	5,441,693	(3,182,375)	62,771,066
Infrastructure	1,115,413,336	31,609,936	(7,476,377)	1,139,546,895
Total	1,358,211,037	44,070,159	(11,235,769)	1,391,045,427
Less accumulated depreciation for				
Buildings	(48,477,207)	(5,928,155)	165,076	(54,240,286)
Machinery and equipment	(46,819,540)	(3,496,212)	1,035,241	(49,280,511)
Infrastructure	(322,139,428)	(22,529,450)	5,869,170	(338,799,708)
Total	(417,436,175)	(31,953,817)	7,069,487	(442,320,505)
Other capital assets, net	940,774,862	12,116,342	(4,166,282)	948,724,922
Capital assets, net	\$ 999,753,283	\$ 76,373,934	\$ (46,370,456)	\$ 1,029,756,761



The following is a schedule of utility plant for the year ended December 31, 2013:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>
Capital assets not being depreciated				
Land	\$ 11,617,714	\$ 2,241,548	\$ (1,925,109)	\$ 11,934,153
Construction in progress	39,127,614	60,010,136	(52,093,482)	47,044,268
Total	50,745,328	62,251,684	(54,018,591)	58,978,421
Other capital assets				
Buildings	172,021,922	14,089,887	(3,825,856)	182,285,953
Machinery and equipment	57,415,582	4,138,976	(1,042,810)	60,511,748
Infrastructure	1,091,491,506	30,325,410	(6,403,580)	1,115,413,336
Total	1,320,929,010	48,554,273	(11,272,246)	1,358,211,037
Less accumulated depreciation for				
Buildings	(46,047,215)	(5,220,130)	2,790,138	(48,477,207)
Machinery and equipment	(43,967,233)	(3,864,740)	1,012,433	(46,819,540)
Infrastructure	(303,337,868)	(21,856,651)	3,055,091	(322,139,428)
Total	(393,352,316)	(30,941,521)	6,857,662	(417,436,175)
Other capital assets, net	927,576,694	17,612,752	(4,414,584)	940,774,862
Capital assets, net	\$ 978,322,022	\$ 79,864,436	\$ (58,433,175)	\$ 999,753,283

#### **NOTE 7 – LONG-TERM LIABILITIES**

Long-term liabilities at December 31, 2014 are summarized as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Current Portion</i>	<i>Noncurrent Portion</i>
Bonds payable	\$ 240,400,000	\$ 63,195,000	\$ (77,775,000)	\$ 225,820,000	\$ 17,795,000	\$ 208,025,000
ARRA note payable	1,758,399	-	(82,049)	1,676,350	83,697	1,592,653
Unamortized debt premiums and discounts	12,284,359	5,217,063	(2,429,088)	15,072,334	-	15,072,334
Customer advances for construction	835,124	1,191,514	(1,427,011)	599,627	-	599,627
Total long-term liabilities	\$ 255,277,882	\$ 69,603,577	\$ (81,713,148)	\$ 243,168,311	\$ 17,878,697	\$ 225,289,614

Long-term liabilities at December 31, 2013 are summarized as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Current Portion</i>	<i>Noncurrent Portion</i>
Bonds payable	\$ 258,430,000	\$ -	\$ (18,030,000)	\$ 240,400,000	\$ 15,880,000	\$ 224,520,000
ARRA note payable	1,838,831	-	(80,432)	1,758,399	82,048	1,676,351
Unamortized debt premiums and discounts	13,316,146	-	(1,031,787)	12,284,359	-	12,284,359
Customer advances for construction	1,017,142	46,565	(228,583)	835,124	-	835,124
Total long-term liabilities	\$ 274,602,119	\$ 46,565	\$ (19,370,802)	\$ 255,277,882	\$ 15,962,048	\$ 239,315,834

#### **NOTE 8 – BONDS AND NOTES PAYABLE**

Bonds and notes payable consist of the following:

	<i>2014</i>	<i>2013</i>
Water System Revenue Bonds, 2006 tax exempt, interest rates ranging from 4.0% to 5.0% with maturities from 2001 through 2031, partially refunded by Water System Revenue Bonds, 2014 tax exempt.	\$ 5,630,000	\$69,590,000
Water System Revenue Bonds, 2009A tax exempt, interest rates ranging from 2.25% to 5.0% with maturities from 2010 through 2025.	70,875,000	84,100,000
Water System Revenue Bonds, 2009B taxable Build America Bonds (see Supplemental Information), interest rates ranging from 3.75% to 5.5% with maturities from 2017 through 2029.	86,710,000	86,710,000
Water System Revenue Bonds, 2014 tax exempt, interest rates ranging from 2.5% to 5.0% with maturities from 2014 through 2031.	62,605,000	-
Kentucky Infrastructure Authority, Drinking Water State Revolving Fund Loan Program, interest rate of 2.0% and maturities from 2012 through 2031.	1,676,350	1,758,399
	227,496,350	242,158,399
Less current portion	17,878,697	15,962,048
Bonds and notes payable, less current portion	\$ 209,617,653	\$ 226,196,351

All bonds are subject to optional redemption provisions.

The Water System Revenue Bond resolutions contain a rate covenant requiring that the schedule of rates and charges and the rules and regulations for water services will not be revised so as to result in a decrease of revenues. Also, future adjustments to water rates and charges are required as necessary so that annual net revenues will not be less than 1.30% of the total annual bond debt service requirements for the then outstanding bonds.

Maturities of bonds and notes payable are as follows:

	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
<i>Years ended December 31</i>			
2015	\$ 17,878,695	\$ 10,127,491	\$ 28,006,186
2016	17,610,380	9,236,058	26,846,438
2017	17,457,096	8,358,092	25,815,188
2018	16,898,847	7,617,905	24,516,752
2019	16,340,632	6,870,769	23,211,401
2020-2024	72,981,230	23,795,059	96,776,289
2025-2029	58,101,580	9,133,776	67,235,356
2030-2031	10,227,890	558,426	10,786,316
	<u>\$ 227,496,350</u>	<u>\$ 75,697,576</u>	<u>\$ 303,193,926</u>

The Company issued \$63,195,000 in tax-exempt bonds on September 3, 2014. The Series 2014A Bonds are being issued for the purposes of: (i) the advance refunding, payment and discharge of a portion of the outstanding Water System Revenue Bonds, Series 2006 and (ii) making provisions for the costs of issuance of the Series 2014A Bonds and other related costs.

The Series 2014A Bonds advance refunded \$61,305,000 of the outstanding Series 2006 Bonds with interest rates from 4.4% to 5.0%. The Company used the proceeds to purchase U.S. Government Securities. These securities were deposited in an irrevocable refunding escrow to provide for all future debt service on the refunded portion of the Series 2006 Bonds. As a result, that portion of the Series 2006 Bonds is considered defeased and the Company has removed the amount advance refunded from its accounts. The advance refunding resulted in a cash flow savings of \$7,002,008 and a net present value savings of \$6,888,803.

#### **NOTE 9 – DIVIDENDS**

The Company is required by bond resolution to pay a dividend to Louisville Metro, the sole stockholder. The dividend is calculated in accordance with the provisions of the 2009 Master Bond Resolution and paid quarterly based on budgeted dividend. The required annual dividend shall be equal to fifty percent (50%) of the average of the current and prior two fiscal years' net income before distributions and contributions with certain adjustments and exclusions (adjusted net income). The dividend computed under this provision was \$20,626,741 and \$19,649,112 for 2014 and 2013, respectively.

#### **NOTE 10 – DEFERRED COMPENSATION PLANS**

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. An employee may defer up to 100% of adjusted gross compensation or \$17,500, whichever is less, to the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. Plan assets and liabilities are not recorded by the Company. The Company contributes \$0.25 for every \$1.00 of an employee's contribution up to \$1,500 (\$375 maximum Company contribution) to the plan. The amount contributed to the plan by the Company and charged to expense was approximately \$62,631 and \$66,074 for the years ended December 31, 2014 and 2013, respectively.

The Company has a defined contribution plan covering substantially all employees of the Company. An eligible employee may defer up to 100% of adjusted gross compensation or \$17,500, whichever is less, to the plan. The Company contributes \$0.25 for every \$1.00 of an employee's contribution up to \$1,500 (\$375 maximum Company contribution) to the plan. The amount contributed to the plan by the Company and charged to expense was approximately \$34,063 and \$34,521 for the years ended December 31, 2014 and 2013, respectively.

#### **NOTE 11 – PENSION PLAN**

All eligible full-time employees of the Company, after 1 year of service, participate in the County Employee Retirement System ("CERS") which is a cost-sharing multiple-employer defined benefit retirement plan administered by Kentucky Retirement Systems ("KRS"), an agency of the Commonwealth of Kentucky. CERS provides for retirement, disability and death benefits to plan members and beneficiaries. KRS issues a publicly available financial report that includes audited financial statements and required supplemental information for CERS. That report may be obtained by writing to KRS, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by visiting their website at [www.kyret.com](http://www.kyret.com).

Plan members are required to contribute 5% of creditable compensation if hired before September 1, 2008. Plan members hired on or after that date are required to contribute 6% of creditable compensation. Participating employees contributed creditable compensation to CERS is shown below:

The Company is required to contribute the remaining amounts necessary to pay benefits when due. The Company's actuarially determined contribution rate was 19.55% effective July 1, 2012, 18.89% effective July 1, 2013 and 17.67% effective July 1, 2014. Employer contribution rates are intended to fund the normal cost on a current basis plus an amount equal to the amortization of unfunded past service costs over thirty years. The annual cost to the Company is equal to the annual required contributions. The Company contributions, total payroll and CERS covered payroll is shown below.

	<i>Employee Contributions</i>	<i>Employer Contributions</i>	<i>Total Payroll</i>	<i>Covered Payroll</i>
2014	\$ 1,505,170	\$ 5,378,219	\$ 32,181,032	\$ 29,411,439
2013	1,454,696	5,524,649	31,365,056	28,123,089
2012	1,449,285	5,549,950	30,586,073	28,669,670

#### **NOTE 12 – CONTINGENCIES AND COMMITMENTS**

**Self-Insurance:** The Company retains certain insurable risks up to a fixed maximum per claim exposure. The risk is mitigated by maintaining a self-insured retention ("S.I.R.") of \$1,000,000 per occurrence for auto and general liability claims and lawsuits with excess liability insurance above the S.I.R. in two layers totaling \$35,000,000. Claims and suits are managed in-house by Louisville Water Company staff.

The Company is self-funded for workers' compensation claims with a specific (per occurrence) retention of \$500,000, an estimated aggregate retention of \$1,741,000 (approximately 200% of deposit premium based upon payroll estimates) and an aggregate limit of \$3,000,000. Prior to October 1, 2008, the specific retention was \$450,000 with statutory limits. Workers' compensation claims are managed by a third-party administrator with oversight by Louisville Water Company Risk Management.

Changes in the liability for self-insurance for liability and workers' compensation claims are as follows:

	2014	2013	2012
Liability – beginning of year	\$ 1,187,845	\$ 2,167,916	\$ 2,050,856
Accruals for current year claims and changes in estimate	948,481	554,193	989,970
Claims paid	(795,949)	(1,534,264)	(872,910)
Liability – end of year	\$ 1,340,377	\$ 1,187,845	\$ 2,167,916

**Claims and Litigation:** The Company is involved in litigation, which has arisen out of operations in the ordinary course of business. While it is not possible to forecast the outcomes of litigation, it is the opinion of the Company's management, based on evaluations by outside counsel, that they will not have a material adverse effect on the financial statements of the Company.

**Construction Commitments:** The estimated cost to complete construction projects under contract was approximately \$27.5 million, \$31.5 million and \$13.5 million at December 31, 2014, 2013 and 2012, respectively.



## SUPPLEMENTAL INFORMATION

### SCHEDULE OF INVESTMENTS

December 31, 2014

	<i>Yield</i>	<i>Maturity</i>	<i>Par</i>	<i>Fair Market Value</i>
Bond Reserve Account – Series 2006				
First American Government Obligation Fund	0.01%	02/17/15	\$ 51,732	\$ 51,732
Bayerische Landesbank Repo	2.52%	05/15/16	2,969,125	2,969,125
Bond Reserve Account – Series 2009A				
Fidelity Governmental Fund 57	0.01%	02/17/15	2,112,791	2,112,791
Bayerische Landesbank Repo	3.46%	11/15/25	3,452,679	3,452,679
Bond Reserve Account – Series 2009B				
Fidelity Governmental Fund 57	0.01%	02/17/15	101,953	101,953
Bayerische Landesbank Repo	3.46%	11/15/29	4,307,514	4,307,514
Bond Service Account – Series 2006				
First American Government Obligation Fund	0.01%		262,469	262,469
Bond Service Account – Series 2009A				
Fidelity Governmental Fund 57	0.01%		1,607,591	1,607,591
Bond Services Account – Series 2009B				
Fidelity Governmental Fund 57	0.01%		395,730	395,730
Bond Service Account – Series 2014				
First American Government Obligation Fund	0.01%		445,010	445,010
			\$ 15,706,594	\$ 15,706,594

## SUMMARIZED SCHEDULE OF BOND ISSUES

### **2014A Series Bond Issue**

The tax-exempt Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master Resolution Date	November 10, 2009
Third supplemental resolution date	July 15, 2014
Original amount	\$63,195,000
Interest rate	2.5% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2023

### **2009A Series Bond Issue**

The tax-exempt Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master Resolution Date	November 10, 2009
First supplemental resolution date	November 10, 2009
Original amount	\$116,220,000
Interest rate	2.25% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2019

### **2009B Series Bond Issue**

The taxable Water System Revenue Bonds were issued by the Board of Water Works ("Board") and are payable only from revenue of the Company. This series was issued as Federally Taxable Build America Bonds – Direct Payment. The American Recovery and Reinvestment Act of 2009 authorized the Board to issue these taxable bonds, known as Build America Bonds ("BABs"), to finance capital expenditures and elect to receive a subsidy payment from the U.S. Treasury equal to 35% of the amount of each interest payment on such taxable bonds. The interest amounts reflected on the Schedule of Outstanding Bond Indebtedness and Annual Debt Service Requirements for the 2009B Series do not reflect this BABs subsidy payment.

As of October 1, 2013, The Internal Revenue Service Office of Tax Exempt Bonds announced a new sequester reduction in amounts paid to issuers of direct pay bonds for which issuers elected to receive a direct payment from the U.S. Treasury. The sequester reduction for the federal fiscal year 2014 (October 1, 2013 through September 30, 2014) is 7.2 percent of the BABs subsidy payment.

Master Resolution date	November 10, 2009
Second supplemental resolution date	November 10, 2009
Original amount	\$86,710,000
Interest rate	3.75% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2019

### 2006 Series Bond Issue

The tax-exempt Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master Resolution date	July 14, 1992 (as amended November 10, 2009)
Third supplemental resolution date	May 25, 2006
Original amount	\$ 83,845,000
Interest rate	4.00% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2016

**SCHEDULE OF OUTSTANDING BOND INDEBTEDNESS  
AND ANNUAL DEBT SERVICE REQUIREMENTS**

2014A Bonds			
	<i>Principal Installments</i>	<i>Interest</i>	<i>Aggregate Bond Service</i>
<i>Year ending December 31</i>			
2015	\$ 100,000	\$ 2,334,100	\$ 2,434,100
2016	100,000	2,329,100	2,429,100
2017	3,205,000	2,324,100	5,529,100
2018	3,340,000	2,163,850	5,503,850
2019	3,500,000	1,996,850	5,496,850
2020	3,665,000	1,821,850	5,486,850
2021	3,800,000	1,675,250	5,475,250
2022	3,930,000	1,523,250	5,453,250
2023	4,065,000	1,366,050	5,431,050
2024	4,200,000	1,203,450	5,403,450
2025	4,350,000	1,035,450	5,385,450
2026	4,430,000	926,700	5,356,700
2027	4,525,000	815,950	5,340,950
2028	4,635,000	680,200	5,315,200
2029	4,760,000	541,150	5,301,150
2030	4,910,000	374,550	5,284,550
2031	5,090,000	178,150	5,268,150
	\$ 62,605,000	\$ 23,290,000	\$ 85,895,000

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2009A Bonds			
	<i>Principal Installments</i>	<i>Interest</i>	<i>Aggregate Bond Service</i>
<i>Year ending December 31</i>			
2015	\$ 14,935,000	\$ 3,327,475	\$ 18,262,475
2016	14,555,000	2,580,725	17,135,725
2017	3,760,000	1,852,975	5,612,975
2018	3,955,000	1,664,975	5,619,975
2019	4,170,000	1,467,225	5,637,225
2020	4,390,000	1,258,725	5,648,725
2021	4,580,000	1,083,125	5,663,125
2022	4,785,000	899,925	5,684,925
2023	5,000,000	708,525	5,708,525
2024	5,245,000	483,525	5,728,525
2025	5,500,000	247,500	5,747,500
	\$ 70,875,000	\$ 15,574,700	\$ 86,449,700

2009B Bonds			
	<i>Principal Installments</i>	<i>Interest</i>	<i>Aggregate Bond Service</i>
<i>Year ending December 31</i>			
2015	\$ -	\$ 4,151,305	\$ 4,151,305
2016	-	4,151,305	4,151,305
2017	10,405,000	4,151,305	14,556,305
2018	9,515,000	3,761,118	13,276,118
2019	8,580,000	3,380,518	11,960,518
2020	7,665,000	2,985,838	10,650,838
2021	6,730,000	2,621,750	9,351,750
2022	5,790,000	2,293,662	8,083,662
2023	4,820,000	2,004,162	6,824,162
2024	3,835,000	1,763,162	5,598,162
2025	2,805,000	1,561,825	4,366,825
2026	7,960,000	1,414,563	9,374,563
2027	7,105,000	976,763	8,081,763
2028	6,215,000	603,750	6,818,750
2029	5,285,000	277,463	5,562,463
	\$ 86,710,000	\$ 36,098,489	\$ 122,808,489

2006 Bonds			
	<i>Principal Installments</i>	<i>Interest</i>	<i>Aggregate Bond Service</i>
<i>Year ending December 31</i>			
2015	\$ 2,760,000	\$ 281,500	\$ 3,041,500
2016	2,870,000	143,500	3,013,500
	\$ 5,630,000	\$ 425,000	\$ 6,055,000



ARRA Note			
	<i>Principal Installments</i>	<i>Interest</i>	<i>Aggregate Note Service</i>
<i>Year ending December 31</i>			
2015	\$ 83,695	\$ 33,111	\$ 116,806
2016	85,380	31,428	116,808
2017	87,096	29,712	116,808
2018	88,847	27,962	116,809
2019	90,632	26,176	116,808
2020	92,454	24,354	116,808
2021	94,312	22,496	116,808
2022	96,208	20,600	116,808
2023	98,142	18,666	116,808
2024	100,114	16,694	116,808
2025	102,127	14,681	116,808
2026	104,180	12,629	116,809
2027	106,274	10,535	116,809
2028	108,410	8,398	116,808
2029	110,589	6,219	116,808
2030	112,811	3,997	116,808
2031	115,079	1,729	116,808
	\$ 1,676,350	\$ 309,387	\$ 1,985,737

**SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES AND TAXES**

*Years ended December 31, 2014 and 2013*

	2014	2013
Operation and maintenance expenses		
Pumping	\$ 7,764,848	\$ 7,436,583
Water treatment	10,298,547	9,982,861
Transmission and distribution	17,965,937	16,976,131
Customer accounts expenses	9,083,371	9,042,703
Administrative and general expenses	21,210,266	20,606,016
Operation expenses under applied	(374,597)	(330,471)
Total operation and maintenance expenses	\$ 65,948,372	\$ 63,713,823
Taxes		
Water and fire service in lieu of taxes	\$ 15,834,564	\$ 15,436,479
Social security taxes	2,210,249	2,157,402
State unemployment and miscellaneous taxes	59,342	18,053
Payroll taxes allocated	(2,210,249)	(2,157,402)
Total taxes	\$ 15,893,906	\$ 15,454,532

## BOARD OF WATER WORKS

as of December 31, 2014



**Greg Fischer**  
Mayor, Louisville  
Metro (ex officio)



**Creighton Mershon**  
Chair - Retired,  
General Counsel BellSouth-  
ATT/KY Operations



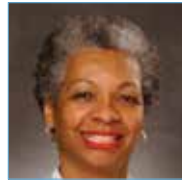
**Glenn D. Sullivan**  
Vice-Chair -  
President, The Sullivan  
University System, Inc.



**John Bleidt**  
Lawyer, Seiller  
Waterman, LLC



**Dr. Sharon Kerrick**  
Associate Director, Forcht  
Entrepreneurship Center,  
UofL College of Business



**Marita Willis**  
President,  
Community IMPACT



**Craig D. Willman**  
Retired Louisville  
Firefighter

The Board of Water Works is the governing body of Louisville Water Company. It is composed of six members appointed by the Louisville Metro Mayor who also serves as an ex officio member. No more than three of the appointed members may be from the same political party. Members' terms are four years and are staggered, and members can succeed themselves.

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## EXECUTIVE LEADERSHIP TEAM

as of December 31, 2014



**Amber Halloran**

Vice President, Finance - Treasurer

**Barbara Dickens**

Vice President, General Counsel and Secretary

**Adam Carter**

President, AFSCME Local 1683

**Dave Vogel**

Vice President, Customer Service

**Spencer Bruce**

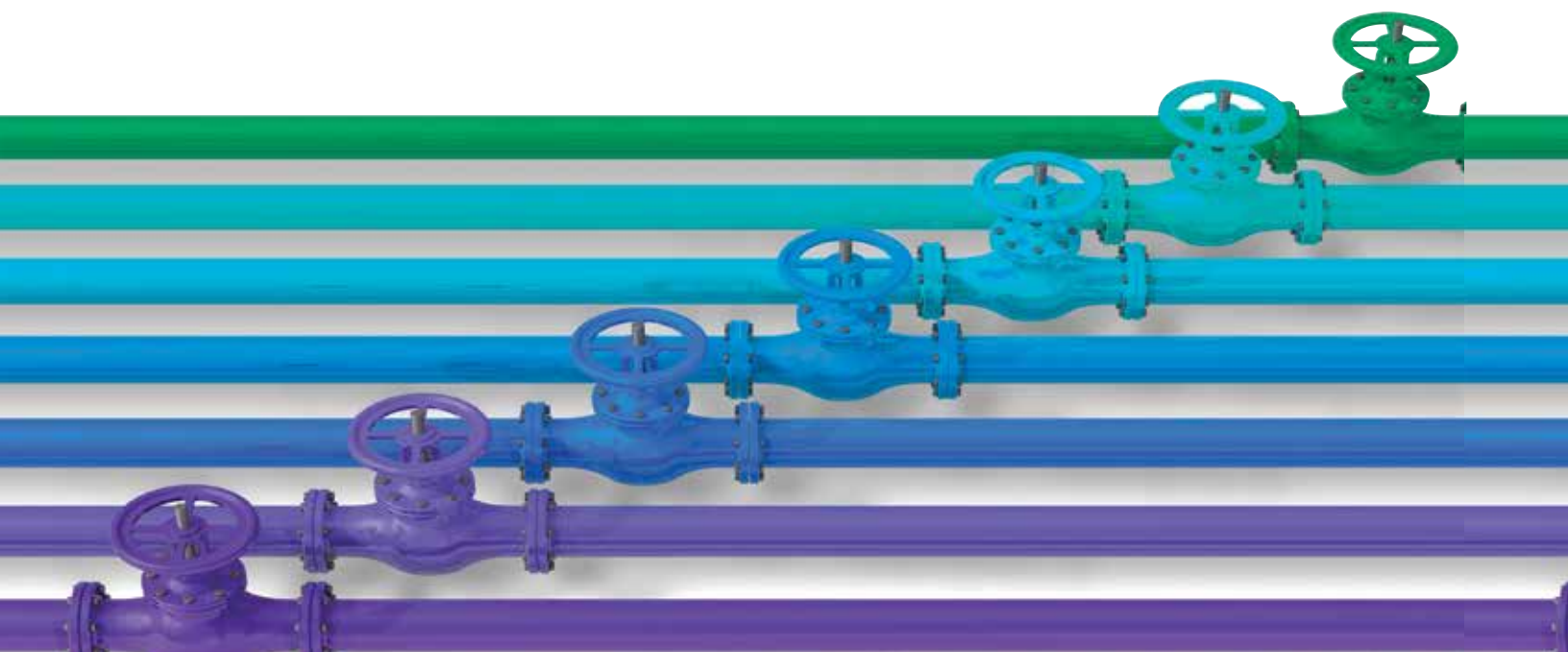
Vice President, Operations and Chief Engineer

**Ed Chestnut**

Vice President, Administration

**Jim Brammell**

President/CEO



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